BANK OF ENGLAND FMI RULEBOOK: UK CENTRAL COUNTERPARTIES INSTRUMENT 2027

Powers exercised

A. The Bank of England makes this instrument in the exercise of the following powers and related provisions in the Financial Services and Markets Act 2000 ("the Act"):

(1) section 137T (General supplementary powers) as applied by paragraph 10 (Rules) of Schedule 17A (Further provision in relation to exercise of Part 18 functions by Bank of England);
(2) section 293(2) (Notification requirements); and
(3) section 300F (Rules relating to central counterparties and central securities depositories).

B. The rule-making powers referred to above are specified for the purpose of section 138G(2) (Rule-making instrument) of the Act as applied by paragraph 10 (Rules) of Schedule 17A (Further provision in relation to exercise of Part 18 functions by Bank of England).

C. The Bank of England makes the rules in the Annexes to this instrument.

Part	Annex
Capital	A
Management and Governance	B
Change in Control	C
Record Keeping	D
Business Continuity	E
Operational Resilience	F
Conduct of Business	G
Exposure Management	H
Margin Requirements	I
Default Procedures	J
Default Fund	K
Default Waterfall	L
Liquidity Risk Controls	M
Collateral	N
Investment Policy	O
Review and Testing of Models and Parameters	P

Near-final

Settlement	Q
Capital Calculations and Reporting	R
Interoperability Arrangements	S

Commencement

D. This instrument comes into force on [DATE] except for:

   a. Rules 3.20 to 3.27, 3.30, 4.1, 4.2, 4.3(3) and (4), 4.4, 4.5 and 4.6 of the Margin Requirements Part and Rule 13.9 of the Review and Testing of Models and Parameters Part which come into force on [DATE 12 MONTHS FROM DATE OF INSTRUMENT COMING INTO FORCE];
   b. Rule 2.2(2) of the Default Waterfall Part which comes into force on 1 April 2028; and
   c. Rules 5.2 and 5.3 of Chapter 5 of the Margin Requirements Part which come into force on [DATE 24 MONTHS FROM DATE OF INSTRUMENT COMING INTO FORCE].

Citation

E. This instrument may be cited as the Bank of England FMI Rulebook: UK Central Counterparties Instrument 2027.

By order of the Financial Market Infrastructure Committee

[DATE]

Near-final

Annex A

Capital Part

In this Annex, the text is all new and is not underlined.

CAPITAL

Chapter content

1. **APPLICATION**
2. **GENERAL**
3. **CAPITAL REQUIREMENTS**
4. **CAPITAL REQUIREMENTS FOR WINDING DOWN AND RESTRUCTURING**
5. **CAPITAL REQUIREMENTS FOR OPERATIONAL AND LEGAL RISKS**
6. **BASIC INDICATOR APPROACH**
7. **CAPITAL REQUIREMENTS FOR CREDIT RISK, COUNTERPARTY CREDIT RISK AND MARKET RISK**
8. **MARK-TO-MARKET METHOD**
9. **CAPITAL REQUIREMENTS FOR BUSINESS RISK**

Near-final

1 APPLICATION

1.1 This Part applies to a *UK CCP*.

2 GENERAL

2.1 A *CCP* must have permanent and available *capital* of at least £6.1 million.

2.2 A *CCP's capital* must be proportionate to the risk stemming from the activities of the *CCP*.

2.3 Notwithstanding 2.2, a *CCP* is not required to hold *capital* for trade exposures and default contributions that arise under an *interoperability arrangement* entered into in accordance with the Interoperability Arrangements Part.

3 CAPITAL REQUIREMENTS

3.1 Pursuant to 2.2, a *CCP* must hold *capital* which at all times is no less than the sum of:

(1) the *CCP's* capital requirements for winding down or restructuring its activities calculated in accordance with Chapter 4;

(2) the *CCP's* capital requirements for operational and legal risks calculated in accordance with Chapters 5 and 6;

(3) the *CCP's* capital requirements for credit, counterparty and market risks calculated in accordance with Chapters 7 and 8; and

(4) the *CCP's* capital requirements for business risk calculated in accordance with Chapter 9.

3.2 The figure calculated in accordance with 3.1 will not permit a *CCP* to have permanent and available *capital* of less than £6.1 million.

3.3 A *CCP* must have procedures in place to identify all sources of risks that may impact its on-going functions and consider the likelihood of potential adverse effects on its revenues, expenses or level of *capital*.

3.4 A *CCP* must immediately notify the *Bank* if the amount of *capital* held by it according to this Part is lower than the *notification threshold*.

3.5 Following a notification under 3.4, the *CCP* must keep the *Bank* updated at least weekly until the amount of *capital* held by the *CCP* exceeds the *notification threshold*.

3.6 The notification in 3.4 must be made in writing and include:

(1) the reasons for the *CCP's capital* being below the *notification threshold* and a description of the *CCP's* financial situation over the short term; and

(2) a comprehensive description of the measures the *CCP* intends to adopt to ensure on-going compliance with its capital requirements.

3.7 For the purposes of determining whether a *CCP* meets the *notification threshold*, a *CCP* may take into account the further dedicated financial resources referred to in 2.2(2) (but not those referred to in 2.2(1)) in each case of the Default Waterfall Part, in calculating the amount of *capital* held by it.

4 CAPITAL REQUIREMENTS FOR WINDING DOWN AND RESTRUCTURING

4.1 A *CCP* must calculate its capital requirements referred to in 3.1(1) as follows:

$$(\frac{x}{12})(Z)$$

Where:

x = the *CCP's* annual gross operational expenses; and

Z = the appropriate time span in months for winding down or restructuring the *CCP's* activities determined in accordance with 4.2.

Near-final

4.2 A *CCP* must calculate the time span referred to in 4.1 in accordance with the following:

(1) the time span must be sufficient to ensure, including in stressed market conditions, an orderly winding down or restructuring of the *CCP's* activities, reorganising of its operations, liquidating of its clearing portfolio or transfer of its clearing activities to another *CCP*;

(2) the time span must take into account the liquidity, size, maturity structure and potential cross-border obstacles of the positions of the *CCP* and the type of products cleared; and

(3) the time span must be for a minimum of six months.

4.3 A *CCP* must notify the *Bank* of:

(1) the appropriate time span for winding down that it has calculated in accordance with 4.2; and

(2) any amendments to the time span notified under (1) that arise due to a material change in the assumptions underlying the calculation in 4.2.

4.4 For the purposes of this Chapter, a *CCP* must:

(1) consider its operational expenses in accordance with, as applicable:

(a) *UK-adopted international accounting standards*; or

(b) *UK Companies Act accounting standards*; and

(2) use the most recent audited information from its annual financial statement.

5 CAPITAL REQUIREMENTS FOR OPERATIONAL AND LEGAL RISKS

5.1 A *CCP* must calculate its capital requirements referred to in 3.1(2) using the Basic Indicator Approach in accordance with Chapter 6.

5.2 A *CCP* must have in place a well-documented assessment and management system for operational (including legal) risk that:

(1) identifies exposures to operational risk and tracks relevant operational risk data, including material loss data;

(2) is subject to regular review by an independent party possessing the necessary knowledge to carry out such review; and

(3) is closely integrated into the risk management processes of the *CCP.*

5.3 The output of the system referred to in 5.2 must be an integral part of the process of monitoring and controlling the *CCP's* operational risk profile.

5.4 A *CCP* must assign clear responsibilities for its operational risk assessment system.

5.5 A *CCP* must have:

(1) a system of reporting to *senior management* that includes the provision of operational risk reports to relevant functions within the *CCP*; and

(2) procedures for taking appropriate action that responds to the information in such reports.

Near-final

6 BASIC INDICATOR APPROACH

6.1 Under the Basic Indicator Approach, a *CCP* must calculate its capital requirements for operational risk as equal to 15% of the average over three years of the relevant indicator as set out in 6.7.

6.2 A *CCP* must calculate the average of the relevant indicator over three years on the basis of the last three twelve-monthly observations at the end of the financial year using audited figures. Where audited figures are not available, a *CCP* may use business estimates.

6.3 Where a *CCP* has been in operation for less than three years it may use forward-looking business estimates in calculating the relevant indicator, provided that it starts using historical data as soon as these are available.

6.4 Where, due to a merger, an acquisition or a disposal of entities or activities, using a three-year average to calculate the relevant indicator would lead to a biased estimate for its capital requirements for operational risk, a *CCP* may amend the calculation in a way that takes into account such event.

6.5 A *CCP* must notify the *Bank:*

(1) of its capital requirements for operational risk calculated in accordance with this Chapter; and

(2) where it has amended its calculation in accordance with 6.4.

6.6 Where, for any given observation, the relevant indicator is negative or equal to zero, a *CCP* must:

(1) not take into account this figure in the calculation of the average over three years; and

(2) instead calculate the average over three years as the sum of positive figures divided by the number of positive figures.

6.7 (1) For a *CCP* applying *UK Companies Act accounting standards*, based on the accounting categories for the profit and loss account of institutions set out in paragraph 15 to Schedule 2 of the Large and Medium-sized Companies Groups (Accounts and Reports) Regulations 2008, the relevant indicator is the sum of the elements listed in Table 1. A *CCP* must include each element in the sum with its positive or negative sign.

Table 1

1	Interest receivable and similar income
2	Interest payable and similar charges
3	Income from shares and other variable/fixed-yield securities
4	Commissions/fees receivable
5	Commissions/fees payable
6	Net profit or net loss on financial operations
7	Other operating income

(2) A *CCP* must adjust these elements to reflect the following qualifications:

(a) a *CCP*:

(i) must calculate the relevant indicator before the deduction of any provisions and operating expenses and include in operating expenses fees paid for outsourcing services rendered by third parties where the third party is not a *parent undertaking* or *subsidiary undertaking* of the *CCP* or a *subsidiary undertaking* of a *parent undertaking* which is also the *parent undertaking* of the *CCP*; but

(ii) may use expenditure on the outsourcing of services rendered by third parties to reduce the relevant indicator where the expenditure is incurred in relation to an undertaking subject to prudential rules under, or equivalent to, the *PRA Rulebook*;

(b) a *CCP* must not use the following elements in the calculation of the relevant indicator:

(i) realised profits/losses from the sale of non-trading book items;

(ii) income from extraordinary or irregular items; or

(iii) income derived from insurance;

(c) where revaluation of trading items is part of the profit and loss statement, a *CCP* may include revaluation in calculating the relevant indicator. Where a *CCP* applies paragraph 33 to Schedule 2 of the Large and Medium-sized Companies Groups (Accounts and Reports) Regulations 2008, it must include revaluation booked in the profit and loss account.

(3) Notwithstanding 6.7(1), a *CCP* may choose not to apply the accounting categories for the profit and loss account set out in paragraph 15 to Schedule 2 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 to finance and operating leases for the purpose of calculating the relevant indicator, and may instead:

(a) include interest income from finance and operating leases and profits from leased assets in the category referred to in row 1 of Table 1; and

(b) include interest expense from finance and operating leases, losses, depreciation and impairment of assets leased under operating leases in the category referred to in row 2 of Table 1.

(4) When a *CCP* applies accounting standards different from *UK Companies Act accounting standards*, it must calculate the relevant indicator on the basis of data that best reflect the definition set out in 6.7.

7 CAPITAL REQUIREMENTS FOR CREDIT RISK, COUNTERPARTY CREDIT RISK AND MARKET RISK

7.1 For risks not already covered by specific financial resources referred to in the Margin Requirements Part, the Default Fund Part, Chapter 2 of the Default Waterfall Part and the Liquidity Risk Controls Part, a *CCP* must calculate its capital requirements referred to in 3.1(3) as the sum of:

(1) 8% of its risk weighted exposure amounts for credit and counterparty credit risk; and

(2) its capital requirements for market risk.

7.2 Pursuant to 7.1(2), a *CCP* must calculate its capital requirements for market risk using the methods provided for in Articles 327 to 378 of the *CRR* as it stood on 31 December 2026.

7.3 Pursuant to 7.1(1), a *CCP* must calculate its risk weighted exposure amounts:

(1) for credit risk, using the standardised approach for credit risk provided for in Articles 111 to 127, 129 to 131 and 133 to 141 of the *CRR* as it stood on 31 December 2026 and in Articles 128 and 132 to 132c of Chapter 3 of the Standardised Approach and Internal Ratings Based Approach to Credit Risk (CRR) Part of the *PRA Rulebook* as it stood on 31 December 2026; and

(2) for counterparty credit risk, using the Mark-to-market Method provided for in Chapter 8 and the Financial Collateral Comprehensive Method applying supervisory volatility adjustments provided for in Articles 218 to 236 of the *CRR* as it stood on 31 December 2026.

7.4 Where a *CCP* does not comply with Chapters 4 and 5 of the Interoperability Arrangements Part and does not use its own resources, it must apply a risk weight of 1250% to its exposures stemming from contributions to the *default fund* of another *CCP* and a risk weight of 2% to its trade exposures with another *CCP*.

8 MARK-TO-MARKET METHOD

8.1 In order to determine the current replacement cost of all contracts with positive values, a *CCP* must attach the current market values to the contracts.

8.2 In order to determine the potential future credit exposure, a *CCP* must multiply the notional amounts or underlying values, as applicable, by the percentages in Table 2 and in accordance with the following principles:

(1) contracts which do not fall within one of the five categories indicated in Table 2 must be treated as contracts concerning commodities other than precious metals;

(2) for contracts with multiple exchanges of principal, the percentages must be multiplied by the number of remaining payments still to be made in accordance with the contract;

(3) for contracts that are structured to settle outstanding exposures following specified payment dates and where the terms are reset so that the market value of the contract is

Near-final

zero on those specified dates, the residual maturity must be equal to the time until the next reset date. In the case of interest-rate contracts that meet those criteria and have a remaining maturity of over one year, the percentage must be no lower than 0.5 %.

Table 2

Residual maturity	**Interest-rate contracts**	**Contracts concerning foreign-exchange rates and gold**	**Contracts concerning equities**	**Contracts concerning precious metals except gold**	**Contracts concerning commodities other than precious metals**
One year or less	0 %	1 %	6 %	7 %	10 %
Over one year, not exceeding five years	0.5 %	5 %	8 %	7 %	12 %
Over five years	1.5 %	7.5 %	10 %	8 %	15 %

8.3 For contracts relating to commodities other than gold, which are referred to in point 3 of Annex 1 of Chapter 3 of the Counterparty Credit Risk (CRR) Part of the *PRA Rulebook*, a *CCP* may, as an alternative to applying the percentages in Table 2, apply the percentages in Table 3 provided the *CCP* follows the extended maturity ladder approach set out in Article 361 of the Market Risk: Simplified Standardised Approach (CRR) Part of the *PRA Rulebook* for those contracts.

Table 3

Residual maturity	**Precious metals (except gold)**	**Base metals**	**Agricultural products (softs)**	**Other, including energy products**
One year or less	2 %	2.5 %	3 %	4 %
Over one year, not exceeding five years	5 %	4 %	5 %	6 %
Over five years	7.5 %	8 %	9 %	10 %

8.4 A *CCP* must calculate the exposure value as the sum of current replacement cost and potential future credit exposure.

9 CAPITAL REQUIREMENTS FOR BUSINESS RISK

9.1 A *CCP* must calculate and maintain the *capital* necessary to cover losses resulting from business risk based on reasonably foreseeable adverse scenarios relevant to its business model.

9.2 A *CCP's* capital requirements for business risk must be equal to the amount calculated in accordance with 9.1 and are subject to a minimum amount of 25% of the *CCP's* annual gross operational expenses.

9.3 For the purposes of 9.2, a *CCP* must consider its annual gross operational expenses in accordance with 4.4.

9.4 A *CCP* must notify the *Bank* of:

(1) its capital requirements for business risk calculated in accordance with this Chapter; and

(2) any amendments to the requirements notified under (1) which arise due to a material change in circumstances.

Near-final

Annex B

Management and Governance Part

In this Annex, the text is all new and is not underlined.

MANAGEMENT AND GOVERNANCE

Chapter content

1. **APPLICATION**
2. **GENERAL PROVISIONS**
3. **GOVERNANCE ARRANGEMENTS**
4. **RISK MANAGEMENT AND INTERNAL CONTROL MECHANISMS**
5. **COMPLIANCE POLICY AND PROCEDURES**
6. **COMPLIANCE FUNCTION**
7. **ORGANISATIONAL STRUCTURE AND SEPARATION OF REPORTING LINES**
8. **REMUNERATION POLICY**
9. **DISCLOSURE**
10. **INTERNAL AUDITING**
11. **CONFLICTS OF INTEREST**
12. **SENIOR MANAGEMENT AND THE BOARD**
13. **RISK COMMITTEE**

Near-final

1 APPLICATION

1.1 This Part applies to a *UK CCP*.

2 GENERAL PROVISIONS

2.1 A *CCP* must have robust governance arrangements, which include:

(1) a clear organisational structure with well-defined, transparent and consistent lines of responsibility;

(2) effective processes to identify, manage, monitor and report the risks to which it is or might be exposed; and

(3) adequate internal control mechanisms, including sound administrative and accounting procedures.

2.2 A *CCP* must adopt policies and procedures which are sufficiently effective so as to ensure compliance with *CCP requirements*, including compliance of its managers and *employees*.

2.3 (1) A *CCP* must maintain and operate an organisational structure that ensures continuity and orderly functioning in the performance of its services and activities.

(2) A *CCP* must employ appropriate and proportionate systems, resources and procedures.

2.4 A *CCP* must maintain a clear separation between the reporting lines for risk management and those for the other operations of the *CCP*.

2.5 A *CCP* must adopt, implement and maintain a remuneration policy which promotes sound and effective risk management, and which does not create incentives to relax risk standards.

2.6 A *CCP* must maintain information technology systems that are adequate to deal with the complexity, variety and type of services and activities performed so as to ensure high standards of security and the integrity and confidentiality of the information maintained.

2.7 A *CCP* must make its governance arrangements, the rules governing the *CCP* and its admission criteria for clearing membership available publicly free of charge.

2.8 A *CCP* must ensure that it is subject to frequent and independent audits. The *CCP* must communicate the results of those audits to the *board* and make them available to the *Bank*.

3 GOVERNANCE ARRANGMENTS

3.1 A *CCP* must have clearly specified and well-documented policies, procedures and processes by which its *board* and *senior management* operate, including in relation to the following:

(1) the composition, role and responsibilities of the *board* and any *board* committees;

(2) the roles and responsibilities of the management;

(3) the *senior management* structure;

(4) the reporting lines between the *senior management* and the *board*;

(5) the procedures for the appointment of *board* members and *senior management*;

(6) the design of the risk management, compliance and internal control functions; and

(7) the processes for ensuring accountability to stakeholders.

3.2 (1) A *CCP* must have adequate staff to meet all obligations arising from *CCP requirements*.

(2) A *CCP* must not share its staff with other *group* entities, unless it does so under the terms of an outsourcing arrangement in accordance with the Operational Resilience Part.

Near final

3.3 A *CCP* must establish lines of responsibility which are clear, consistent and well-documented.

3.4 A *CCP* must ensure that the functions of the chief risk officer, chief compliance officer and chief technology officer are carried out by different individuals, who must be *employees* of the *CCP* entrusted with the exclusive responsibility of performing these functions.

3.5 (1) A *CCP* that is part of a *group* must take into account any implications of the *group* for its own governance arrangements including whether:

(a) it has the necessary level of independence to meet its regulatory obligations as a distinct legal person; and

(b) its independence could be compromised by the *group* structure or by any *board* member also being a member of the *board* of other entities of the same *group*.

(2) A *CCP* must consider specific procedures for preventing and managing conflicts of interest including with respect to outsourcing arrangements.

3.6 A *CCP* must ensure that its risk management policies, procedures, systems and controls are part of a coherent and consistent governance framework that is reviewed and updated regularly.

4 RISK MANAGEMENT AND INTERNAL CONTROL MECHANISMS

4.1 A *CCP* must have a sound framework for the comprehensive management of all material risks to which it is or may be exposed.

4.2 (1) A *CCP* must establish documented policies, procedures and systems that identify, measure, monitor and manage the risks referred to in 4.1.

(2) In establishing risk-management policies, procedures and systems, a *CCP* must structure them in a way as to ensure that *clearing members* properly manage and contain the risks they pose to the *CCP*.

4.3 A *CCP* must take an integrated and comprehensive view of all relevant risks, which includes the risks it bears from and poses to:

(1) its *clearing members* and, to the extent practicable, *clients*; and

(2) other entities such as, but not limited to *interoperable CCP*s, securities settlement and payment systems, settlement banks, liquidity providers, *central securities depositories*, *trading venues* served by the *CCP* and other critical service providers.

4.4 A *CCP* must develop appropriate risk management tools to be in a position to identify, manage and report on all relevant risks, including those arising from system, market or other interdependencies.

4.5 If a *CCP* provides services linked to *clearing* that present a distinct risk profile from its functions and potentially pose significant additional risks to the *CCP*, the *CCP* must manage those additional risks adequately. This may include separating legally the additional services that the *CCP* provides from its core functions.

4.6 A *CCP* must ensure that:

(1) its *board* assumes final responsibility and accountability for managing the *CCP*'s risks;

(2) its *board* defines, determines and documents an appropriate level of risk tolerance and risk bearing capacity for the *CCP*; and

(3) its *board* and *senior management* ensure that its policies, procedures and controls are consistent with the *CCP*'s risk tolerance and risk bearing capacity and that they address how the *CCP* identifies, reports, monitors and manages risks.

Near-final

4.7 (1) A *CCP* must employ robust information and risk-control systems to provide the *CCP* and, where appropriate, its *clearing members* and, where possible, *clients* with the capacity to obtain timely information and to apply risk management policies and procedures appropriately.

(2) A *CCP* must ensure that the systems referred to in (1) ensure, at least that credit and liquidity exposures are monitored continuously at the *CCP* level as well as at the *clearing member* level and, to the extent practicable, at the *client* level.

4.8 A *CCP* must ensure that the risk management function has the necessary authority, resources, expertise and access to all relevant information and that it is sufficiently independent from the other functions of the *CCP*.

4.9 A *CCP* must ensure its chief risk officer implements the risk management framework including the policies and procedures established by the *board*.

4.10 (1) A *CCP* must have adequate internal control mechanisms to assist the *board* in monitoring and assessing the adequacy and effectiveness of its risk management policies, procedures and systems.

(2) A *CCP* must ensure that such mechanisms must include sound administrative and accounting procedures, a robust compliance function and an independent internal audit and validation or review function.

4.11 A *CCP* must ensure that its financial statement is prepared on an annual basis and is audited by statutory auditors or audit firms in accordance with *UK-adopted international accounting standards*.

5 COMPLIANCE POLICY AND PROCEDURES

5.1 A *CCP* must:

(1) establish, implement and maintain adequate policies and procedures designed to detect any risk of failure by the *CCP* and its *employees* to comply with its obligations under the *CCP requirements*, as well as the associated risks; and

(2) put in place adequate measures and procedures designed to minimise such risks and to enable the *Bank* to exercise its functions in relation to the *CCP*.

5.2 A *CCP* must ensure that its rules, procedures and contractual arrangements are clear and comprehensive and ensure compliance with the *CCP requirements*, as well as all other applicable regulatory and supervisory requirements.

5.3 A *CCP* must ensure that:

(1) the rules, procedures and contractual arrangements of the *CCP* are recorded in writing or another durable medium; and

(2) the rules, procedures, and contractual arrangements and any accompanying material are accurate, up-to-date and readily available to the *Bank*, *clearing members* and, where appropriate, *clients*.

Near-final

5.4 A *CCP* must identify and analyse the soundness of the rules, procedures and contractual arrangements of the *CCP* and, if necessary, seek independent legal opinions for the purpose of this analysis.

5.5 A *CCP* must have a process for proposing and implementing changes to its rules and procedures and before implementing any material changes, a *CCP* must consult with all affected *clearing members* and notify the *Bank* of the proposed changes.

5.6 In developing its rules, procedures and contractual arrangements a *CCP* must consider relevant regulatory principles and industry standards and market protocols and clearly indicate where such practices have been incorporated into the documentation governing the rights and obligations of the *CCP*, its *clearing members* and other relevant third parties.

5.7 A *CCP* must identify and analyse potential conflicts of law issues and develop rules and procedures to mitigate legal risk resulting from such issues and, if necessary, seek independent legal opinions for the purpose of this analysis.

5.8 A *CCP*'s rules and procedures must clearly indicate the law that is intended to apply to each aspect of the *CCP*'s activities and operations.

6 COMPLIANCE FUNCTION

6.1 A *CCP* must:

(1) establish and maintain a permanent and effective compliance function which operates independently from the other functions of the *CCP*;

(2) ensure that the compliance function has the necessary authority, resources, expertise and access to all relevant information; and

(3) when establishing its compliance function, take into account the nature, scale and complexity of its business, and the nature and range of the services and activities undertaken in the course of that business.

6.2 A *CCP* must ensure that its chief compliance officer has at least the following responsibilities:

(1) monitoring and, on a regular basis, assessing the adequacy and effectiveness of the measures put in place in accordance with 5.7 and the actions taken to address any deficiencies in the *CCP's* compliance with its obligations;

(2) administering the compliance policies and procedures established by *senior management* and the *board*;

(3) advising and assisting the persons responsible for carrying out the *CCP's* services and activities to comply with the *CCP's* obligations under *CCP requirements* and other regulatory requirements, where applicable;

(4) reporting regularly to the *board* on compliance by the *CCP* and its *employees* with *CCP requirements*;

(5) establishing procedures for the effective remediation of instances of non-compliance; and

(6) ensuring that the relevant persons involved in the compliance function are not involved in the performance of the services or activities they monitor and that any conflicts of interest of such persons are properly identified and eliminated.

7 ORGANISATIONAL STRUCTURE AND SEPARATION OF REPORTING LINES

Near-final

7.1 A *CCP* must:

(1) define the composition, role and responsibilities of the *board* and *senior management* and any *board* committees;

(2) ensure that these arrangements are clearly specified and well-documented;

7.2 A *CCP* must ensure that its *board* establishes, at a minimum, an audit committee and a remuneration committee.

7.3 A *CCP* must ensure that the risk committee established in accordance with Chapter 13 is an advisory committee to the *board*.

7.4 A *CCP* must ensure that its *board* assumes at least the following responsibilities:

(1) the establishment of clear objectives and strategies for the *CCP*;

(2) the effective monitoring of *senior management*;

(3) the establishment of appropriate remuneration policies,

(4) the establishment and oversight of the risk management function;

(5) the oversight of the compliance function and internal control function;

(6) the oversight of outsourcing arrangements;

(7) the oversight of compliance with *CCP requirements* and all other regulatory and supervisory requirements; and

(8) the provision of accountability to the shareholders or owners and *employees*, *clearing members* and their customers and other relevant stakeholders.

7.5 A *CCP* must ensure that its *senior management* has at least the following responsibilities:

(1) ensuring consistency of the *CCP*'s activities with the objectives and strategy of the *CCP* as determined by the *board*;

(2) designing and establishing compliance and internal control procedures that promote the *CCP*'s objectives;

(3) subjecting the internal control procedures to regular review and testing;

(4) ensuring that sufficient resources are devoted to risk management and compliance;

(5) being actively involved in the risk control process; and

(6) ensuring that risks posed to the *CCP* by its *clearing* and activities linked to *clearing* are duly addressed.

7.6 Where the *board* of the *CCP* delegates tasks to committees or sub-committees, the *CCP* must ensure that the *board* retains the approval of decisions that could have a significant impact on the risk profile of the *CCP*.

7.7 A *CCP* must ensure that the arrangements by which the *board* and *senior management* operate include processes to identify, address and manage potential conflicts of interest of members of the *board* and *senior management*.

7.8 A *CCP* must:

(1) have clear and direct reporting lines between its *board* and *senior management* in order to ensure that the *senior management* is accountable for its performance;

(2) have reporting lines for risk management, compliance and internal audit which are clear and separate from those for the other operations of the *CCP*;

(3) ensure that its chief risk officer reports to the *board* either directly or through the chair of the risk committee; and

(4) ensure that its chief compliance officer and internal audit function report directly to the *board*.

Near-final

8 REMUNERATION POLICY

8.1 A *CCP* must ensure that the remuneration committee designs and further develops the remuneration policy, oversees its implementation by *senior management* and reviews its practical operation on a regular basis.

8.2 A *CCP* must ensure that:

(1) the remuneration policy is documented and reviewed at least annually;

(2) the level of remuneration is adequate in terms of responsibility as well as in comparison to the level of remuneration in the business areas;

(3) the policy is designed to align the level and structure of remuneration with prudent risk management;

(4) the policy accounts for prospective risks as well as existing risks and risk outcomes;

(5) pay out schedules are sensitive to the time horizon of risks;

(6) in particular in the case of variable remuneration, the policy takes due account of possible mismatches of performance and risk periods and ensures that payments are deferred as appropriate; and

(7) the fixed and variable components of total remuneration are balanced and consistent with risk alignment.

8.3 A *CCP* must ensure that the remuneration policy is subject to an annual independent audit and the results of these audits are made available to the *Bank*.

9 DISCLOSURE

9.1 A *CCP* must make the following information available to the public free of charge:

(1) information regarding its governance arrangements, including the following:

(a) its organisational structure as well as key objectives and strategies;

(b) key elements of the remuneration policy; and

(c) key financial information including its most recent audited financial statements;

(2) information regarding its operations, including the following:

(a) default management procedures, procedures and supplementary texts;

(b) relevant business continuity information;

(c) information on the *CCP*'s risk management systems, techniques and performance in accordance with the Review and Testing of Models and Parameters Part, Chapter 6 of the Liquidity Risk Controls Part, and Chapter 4 of the Default Procedures Part;

(d) all relevant information on its design and operations as well as on the rights and obligations of *clearing members* and *clients*, necessary to enable them to identify clearly and understand fully the risks and costs associated with using the *CCP*'s services;

(e) the *CCP*'s current *clearing* services, including detailed information on what it provides under each service;

(f) the *CCP*'s risk management systems, techniques and performance, including information on financial resources, investment policy, price data sources and models used in *margin* calculations; and

(g) the law and the rules governing:

(i) the access to the *CCP*;

(ii) the contracts concluded by the *CCP* with *clearing members* and, where practicable, *clients*;

(iii) the contracts that the *CCP* accepts for *clearing*;

(iv) any *interoperability arrangements*; and

(v) the use of collateral and *default fund* contributions, including the liquidation of positions and collateral and the extent to which collateral is protected against third party claims;

(3) information regarding eligible collateral and applicable haircuts;

(4) a list of all current *clearing members*, including admission, suspension and exit criteria for clearing membership.

9.2 A *CCP* is not required to make information referred to in 9.1(2) or (3) available to the public to the extent that it has received a *section 138BA permission* from the *Bank* waiving or modifying such obligation.

9.3 A *CCP* must disclose to the public, free of charge, information regarding any material changes in its governance arrangements, objectives, strategies and key policies as well as in its applicable rules and procedures.

9.4 A *CCP* must ensure that information to be disclosed to the public is accessible on its website.

Near-final

10 INTERNAL AUDITING

10.1 A *CCP* must establish and maintain an internal audit function which is separate and independent from the other functions and activities of the *CCP* and which has the following tasks:

(1) to establish, implement and maintain an audit plan to examine and evaluate the adequacy and effectiveness of the *CCP*'s systems, internal control mechanisms and governance arrangements;

(2) to issue recommendations based on the result of work carried out in accordance with paragraph (1);

(3) to verify compliance with those recommendations; and

(4) to report internal audit matters to the *board*.

10.2 A *CCP* must ensure that its internal audit function:

(1) has the necessary authority, resources, expertise, and access to all relevant documents for the performance of its functions;

(2) is sufficiently independent from the *senior management* and reports directly to the *board*; and

(3) has the necessary access to information in order to review all of the *CCP*'s activities and operations, processes and systems, including outsourced activities.

10.3 A *CCP* must ensure that:

(1) its internal audit function assesses the effectiveness of the *CCP*'s risk management processes and control mechanisms in a manner that is proportionate to the risks faced by the different business lines and independent of the business areas assessed; and

(2) the assessments of its internal audit function are based on a comprehensive audit plan that is reviewed by the *CCP* and reported to the *Bank* at least annually.

Near-final

10.4 The *CCP* must ensure that special audits may be performed on an event-driven basis at short notice.

10.5 A *CCP*'s audit planning and review must be approved by the *board*.

10.6 A *CCP* must:

(1) subject its clearing operations, risk management processes, internal control mechanisms and accounts to independent audit; and

(2) ensure that independent audits are performed at least annually.

11 CONFLICTS OF INTEREST

11.1 A *CCP* must maintain and operate effective written organisational and administrative arrangements to identify and manage any potential conflicts of interest between:

(1) itself, including its managers, *employees*, or any person with direct or indirect *control* or *close links*; and

(2) its *clearing members* or their *clients* known to the *CCP*.

11.2 A *CCP* must maintain and implement adequate procedures aiming at resolving possible conflicts of interest.

11.3 Where the organisational or administrative arrangements of a *CCP* to manage conflicts of interest are not sufficient to ensure, with reasonable confidence, that risks of damage to the interests of a *clearing member* or *client* are prevented, the *CCP* must:

(1) clearly disclose the general nature or sources of conflicts of interest to *the clearing member* before accepting new transactions from that *clearing member*; and

(2) where the *client* is known to the *CCP*, inform the *client* and the *clearing member* whose *client* is concerned.

11.4 Where the *CCP* is a *parent undertaking* or a *subsidiary undertaking*, a *CCP* must ensure that the written arrangements also take into account any circumstances, of which the *CCP* is or should be aware, which may give rise to a conflict of interest arising as a result of the structure and business activities of other undertakings with which it has a *parent undertaking* or a *subsidiary undertaking* relationship.

11.5 A *CCP* must ensure that the written arrangements established in accordance with 11.1 include the following:

(1) the circumstances which constitute or may give rise to a conflict of interest entailing a material risk of damage to the interests of one or more *clearing members* or *clients*;

(2) procedures to be followed and measures to be adopted in order to manage such conflict.

11.6 A *CCP* must take all reasonable steps to prevent any misuse of the information held in its systems and must prevent the use of that information for other business activities.

11.7 A *CCP* must have arrangements in place to ensure that a natural person who has a *close link* to a *CCP* or a legal person that has a *parent undertaking* or a *subsidiary undertaking* relationship with a *CCP* does not use confidential information recorded in that *CCP* for any commercial purposes without the prior written consent of the *client* to whom such confidential information belongs.

Near-final

12 SENIOR MANAGEMENT AND THE BOARD

12.1 A *CCP* must ensure that its *senior management* are of sufficiently good repute and have sufficient experience so as to ensure the sound and prudent management of the *CCP*.

12.2 A *CCP* must have a *board* and at least one third, but no less than two, of the members of that *board* must be independent.

12.3 A *CCP* must invite representatives of the *clients* of *clearing members* to *board* meetings for matters relevant to Chapters 4 and 5 of the Conduct of Business Part.

12.4 A *CCP* must ensure that the compensation of the independent and other non-executive members of the *board* is not linked to the business performance of the *CCP*.

12.5 A *CCP* must ensure that the members of its *board*, including its *independent members*, are of sufficiently good repute and must have adequate expertise in financial services, risk management and *clearing* services.

12.6 A *CCP* must clearly determine the roles and responsibilities of the *board* and must make the minutes of the *board* meetings available to the *Bank* and auditors.

12.7 A *CCP* must notify the *Bank* of any changes to its management and must provide the *Bank* with all the information necessary to assess compliance with 12.1 and 12.5.

13 RISK COMMITTEE

13.1 A *CCP* must establish a risk committee and ensure that:

(1) the risk committee is composed of representatives of its *clearing members*, *independent members* of the *board* and representatives of its *clients*;

(2) the risk committee considers whether to invite *employees* of the *CCP* and external independent experts to attend risk-committee meetings in a non-voting capacity;

(3) the *Bank* is able to attend risk-committee meetings in a non-voting capacity and to be duly informed of the activities and decisions of the risk committee;

(4) the advice of the risk committee is independent of any direct influence by the management of the *CCP*; and

(5) no one *group* of representatives has a majority in the risk committee.

13.2 A *CCP* must clearly determine:

(1) the mandate, the governance arrangements to ensure its independence and the operational procedures of the risk committee; and;

(2) the admission criteria and the election mechanism for risk-committee members.

13.3 A *CCP* must ensure that the governance arrangements are publicly available.

13.4 A *CCP* must ensure that the risk committee:

(1) is chaired by an *independent member* of the *board*;

(2) reports directly to the *board*; and

(3) holds regular meetings.

13.5 A *CCP* must ensure that the risk committee advises the *board* on any arrangements that may impact the risk management of the *CCP*, such as a material change in its risk model, the default procedures, the criteria for accepting *clearing members*, the *clearing* of new classes of instruments, or the outsourcing of functions.

13.6 A *CCP* must ensure that the advice of the risk committee is not required for the daily operations of the *CCP*.

13.7 A *CCP* must make reasonable efforts to consult the risk committee on developments impacting the risk management of the *CCP* in emergency situations.

13.8 Without prejudice to the right of the *Bank* to be duly informed, a *CCP* must ensure that the members of the risk committee are bound by confidentiality.

13.9 A *CCP* must ensure that where the chairman of the *CCP*'s risk committee determines that a member has an actual or potential conflict of interest on a particular matter, that member is not allowed to vote on that matter.

13.10 A *CCP* must promptly inform the *Bank* of any decision in which the *board* decides not to follow the advice of the risk committee.

Near-final

Annex C

Change in Control Part

In this Annex, the text is all new and is not underlined.

CHANGE IN CONTROL

Chapter content

1. **APPLICATION**
2. **OBLIGATIONS ON CCPS**
3. **ONGOING NOTIFICATION REQUIREMENTS**

ANNEX - FMI ANNUAL CONTROLLERS REPORT

1 APPLICATION

1.1 This Part applies to a *UK CCP*.

2 OBLIGATIONS ON CCPS

2.1 A *CCP* must notify the *Bank* of:

(1) a person *acquiring control* over the *CCP;*

(2) an existing *controller increasing control* over the *CCP*;

(3) an existing *controller reducing control* over the *CCP*; or

(4) an existing *controller ceasing to have control* over the *CCP.*

Near final

2.2 The notifications in 2.1 must:

(1) be made:

(a) as soon as the *CCP* becomes aware that a person, whether alone or acting in concert, has decided to *acquire control*, to *increase control,* to *reduce control* or to *cease to have control*; or

(b) if the *change in control* takes place without the knowledge of the *CCP*, within 14 days of the *CCP* becoming aware of the *change in control* concerned;

(2) in relation to *acquiring control* or *increasing control*, contain as much of the following information as the *CCP* is able to provide, having made reasonable enquiries from persons and other sources as appropriate:

(a) the name of the *controller* or proposed *controller* and, if it is a body corporate and is not a person who has been given a permission by the *FCA* or the *PRA* under Part 4A of *FSMA*, the names of its directors and its *controllers*;

(b) a description of the proposed event including the shareholding and voting power of the person concerned, both before and after the *change in control*; and

(c) any other information of which the *Bank* would reasonably expect notice;

(3) in relation to a *reducing control*, contain the following:

(a) the name of the *controller*; and

(b) details of the extent of *control* (if any) which the *controller* will have following the reduction in control; and

(4) in relation to *ceasing to have control*, contain the name of the *controller.*

2.3 (1) A *CCP* must notify the *Bank* immediately if, in the period between a notice being submitted under section [301N] of *FSMA* and the occurrence of the *change in control*, the *CCP* becomes aware, or has information which reasonably suggests, that the person submitting the notice has or may have provided the *Bank* with information which was or may have been false, misleading, incomplete or inaccurate, or has or may have changed in a material particular.

(2) The notification must include:

(a) details of the information which is or may be false, misleading, incomplete or inaccurate, or has or may have changed;

(b) an explanation why such information was or may have been provided; and

(c) the correct information.

2.4 If the information in 2.3(2)(c) is not immediately available for submission with the notification, the information must instead be submitted as soon as possible.

2.5 During the period referred to in 2.3(1), a *CCP* must take reasonable steps to keep itself informed about the circumstances of the *controller* or the proposed controller to which the notification related.

2.6 A *CCP* must notify the *Bank*:

(1) when a change in control which was previously notified under 2.1 has taken place; or

(2) if the *CCP* has grounds for reasonably believing that the event will not now take place.

2.7 The notification under 2.6 must be given within 14 days of the *change in control* or the *CCP* first having grounds for belief (as applicable).

Near final

3 ONGOING NOTIFICATION REQUIREMENTS

3.1 A *CCP* must notify the *Bank* as soon as it becomes aware of any of the following matters in respect of one or more of its *controllers:*

(1) if a *controller*, or any entity subject to their *control*, is or has been the subject of any legal action or investigation which might put into question the integrity of the *controller*;

(2) if there is a significant deterioration in the financial position of a *controller*; or

(3) if a corporate *controller* undergoes a substantial change or series of changes in its governing body.

3.2 A *CCP* must take reasonable steps to keep itself informed about *controllers*, including if applicable:

(1) monitoring its register of shareholders (or equivalent);

(2) monitoring notifications to the *CCP* in accordance with Part 22 of the Companies Act 2006; and

(3) monitoring public announcements made under the relevant disclosure provisions of the Takeover Code or other rules made by the Takeover Panel.

3.3 A *CCP* must submit to the *Bank*, by electronic means, a completed annual controllers report in the form set out in the Annex to this Part within four months of the *CCP*'s accounting reference date.

Annex

FMI Annual Controllers Report

Firm/Controller Details

A	B	C	D	E	F
Name of the firm	Does the firm have any controllers	Are you aware of any changes in the identity of the controllers since the last submission?	Are you aware of any changes to the percentages of shares or voting power held by any of the controllers (alone or acting in concert) since the last submission?	Was appropriate regulatory approval sought and granted prior to the change(s) being effected?	Is the information being provided in a group organisation chart?

Near-final

If the answer to F is No please complete the below.

				If the controller is a body corporate			**If the controller is an individual**	
H	**I**	**J**	**K**	**L**	**M**	**N**	**O**	**P**
Name of the controller	% Voting Power	%shareholding	Is the controller a body corporate or individual	Country of incorporation	Address	Registered Number	Date of Birth	Place of Birth

Annex D

Record Keeping Part

In this Annex, the text is all new and is not underlined.

RECORD KEEPING

Chapter content

1. **APPLICATION**
2. **RECORD KEEPING**
3. **TRANSACTION RECORDS**
4. **POSITION RECORDS**
5. **BUSINESS RECORDS**
6. **RECORDS OF DATA REPORTED TO A TRADE REPOSITORY**

ANNEX – TABLES 1 - 3

1 APPLICATION

1.1 This Part applies to a *UK CCP*.

2 RECORD KEEPING

2.1 A *CCP* must maintain, for a period of at least 10 years, all the records on the services it provides and activity it performs in relation to the *CCP's* compliance with the *CCP requirements*.

2.2 (1) A *CCP* must maintain all information on a contract it has processed for a period of at least 10 years following the termination of that contract.

(2) A *CCP* must ensure that the information in paragraph (1) at least enables the identification of the original terms of a transaction before that transaction was cleared by the *CCP*.

2.3 A *CCP* must be able to make the records and information referred to in 2.1 and 2.2 and all information on the positions of cleared contracts, irrespective of the venue where the transactions were executed, available to the *Bank* upon request.

2.4 A *CCP* must keep records in a durable medium that allows information to be provided to the *Bank*, and in such a form and manner that the following conditions are met:

(1) each key stage of the processing by the *CCP* can be reconstituted;

(2) the original content of a record before any corrections or other amendments can be recorded, traced and retrieved;

(3) measures to prevent unauthorised alteration of records are in place;

(4) security and confidentiality of the data recorded are ensured through appropriate measures;

(5) a mechanism for identifying and correcting errors is incorporated in the record keeping system; and

(6) the timely recovery of the records in the case of a system failure is ensured within the record keeping system.

Near-final

2.5 Where records or information are less than six months old, a *CCP* must be able, following a request from the *Bank*, to provide those records or that information to the *Bank* as soon as possible and at the latest by the end of the *business day* following the request.

2.6 Where records or information are more than six months old, a *CCP* must be able, following a request from the *Bank*, to provide those records or that information to the *Bank* as soon as possible and within five *business days* of the request.

2.7 Where the records processed by a *CCP* contain *personal data*, the *CCP* must have regard to its obligations under *data protection legislation*.

2.8 Where a *CCP* maintains records outside the *UK*, it must ensure that the *Bank* is able to access the records to the same extent and within the same periods as if they were maintained within the *UK*.

2.9 A *CCP* must notify the *Bank* of the identity of the relevant persons who can, within the periods established in 2.5 and 2.6 for the provision of the relevant records, explain the content of those records to the *Bank*.

2.10 (1) A *CCP* must ensure that all records it is required to keep under this Part are open to inspection by the *Bank*.

(2) A *CCP* must be able to provide the *Bank* with a direct data feed to the records required to be maintained under Chapters 3, 4 and, where practicable, 5, within six months following a request from the *Bank* for such records.

3 TRANSACTION RECORDS

Near-final

3.1 A *CCP* must maintain records of all transactions in all contracts it clears and must ensure that:

(1) its records include all information necessary to conduct a comprehensive and accurate reconstruction of the *clearing* process for each contract; and

(2) each record on each transaction is uniquely identifiable and searchable at least by all fields concerning the:

(a) *CCP*;

(b) *interoperable CCP*, where applicable;

(c) *clearing member*;

(d) *client*, if known to the *CCP*; and

(e) financial instrument.

3.2 In relation to every transaction received for *clearing*, a *CCP* must, immediately upon receiving the relevant information, make and keep updated a record of the following details:

(1) the price, rate or spread and quantity;

(2) the *clearing* capacity, which identifies whether the transaction was a buy or sale from the perspective of the *CCP* recording the transaction;

(3) the instrument identification;

(4) the identification of the *clearing member*;

(5) the identification of the venue where the contract was concluded;

(6) the date and time of interposition of the *CCP*;

(7) the date and time of termination of the contract;

(8) the terms and modality of settlement; and

(9) the date and time of settlement or of buy-in of the transaction and, to the extent they are applicable, of the following details:

(a) the day and the time at which the contract was originally concluded;

(b) the original terms of and parties to the contract;

(c) the identification of the *interoperable CCP clearing* one leg of the transaction, where applicable; and

(d) the identity of the *client*, including any indirect client, where known to the *CCP*, and in case of a give-up, the identification of the party that transferred the contract.

3.3 A *CCP* must retain the records specified in this Chapter for each contract processed in the format set out in Table 1 (Records of transactions processed) in the Annex to this Part.

4 POSITION RECORDS

4.1 (1) A *CCP* must maintain records of positions held by each *clearing member*.

(2) A *CCP* must hold separate records for each account kept in accordance with Chapter 5 of the Conduct of Business Part.

4.2 A *CCP* must ensure that:

(1) these records include all information necessary to conduct a comprehensive and accurate reconstruction of the transactions that established the position; and

(2) each such record is identifiable and searchable at least by all fields concerning the:

(a) *CCP*;

(b) *interoperable CCP*, where applicable;

(c) *clearing member*;

(d) *client*, if known to the *CCP*; and

(e) financial instrument.

Near-final

4.3 At the end of each *business day* a *CCP* must make a record in relation to each position which includes the following details to the extent they are linked to the position in question:

(1) the identification of:

(a) the *clearing member*;

(b) the *client*, if known to the *CCP*; and

(c) any *interoperable CCP* maintaining such position, where applicable;

(2) the sign of the position; and

(3) the daily calculation of the value of the position, with records of:

(a) the prices at which the contracts are valued; and

(b) any other relevant information.

4.4 A *CCP* must make, and keep updated, a record of the following details with respect to each single *clearing member* account, and, if known to the *CCP*, each *client* account:

(1) the amounts of *margin*, *default fund* contributions and other financial resources referred to in Chapter 2 of the Default Waterfall Part called by the *CCP*; and

(2) the corresponding amount actually posted by the *clearing member* at the end of day and changes to that amount that may occur intraday.

4.5 A *CCP* must retain the records specified in this Chapter for each position in the format set out in Table 2 (Position records) in the Annex to this Part.

5 BUSINESS RECORDS

5.1 A *CCP* must maintain adequate and orderly records of activities related to its business and internal organisation.

5.2 A *CCP* must make a record referred to in 5.1 each time a material change in the relevant documents occurs and must ensure that those records include at least:

(1) the organisational charts for:

(a) the *board* and relevant committees;

(b) the clearing unit;

(c) the risk management unit; and

(d) all other relevant units or divisions;

(2) the identities of the shareholders or members, whether direct or indirect and whether natural or legal persons, that have *qualifying holdings*, and the amounts of those holdings;

(3) the documents attesting the policies, procedures and processes required under Chapters 3 to 10 of the Management and Governance Part, Chapter 3 of the Operational Resilience Part and Chapter 3 of the Default Fund Part;

(4) the minutes of:

(a) *board* meetings;

(b) if applicable, meetings of sub-committees of the *board*; and

(c) if applicable, meetings of *senior management* committees;

(5) the minutes of meetings of the risk committee;

(6) the minutes of consultation groups with *clearing members* and *clients*, if any;

(7) internal and external audit reports, risk management reports, compliance reports, and reports by consultant companies, including management responses;

(8) the business continuity policy and disaster recovery plan, required under Chapter 2 of the Business Continuity Part;

(9) the liquidity plan and the daily liquidity reports, required under Chapter 3 of the Liquidity Risk Controls Part;

(10) records reflecting all assets and liabilities and capital accounts as required under the Capital Part;

(11) complaints received, with information on:

(a) the complainant's name, address, and account number;

(b) the date the complaint was received;

(c) the name of all persons identified in the complaint;

(d) a description of the nature of the complaint;

(e) the disposition of the complaint; and

(f) the date the complaint was resolved;

Near-final

(12) records of any interruption of services or dysfunction, including a detailed report on the timing, effects and remedial actions;

(13) records of the results of the back and stress tests performed;

(14) written communications with the *Bank*;

(15) legal opinions received in accordance with Chapters 3 to 10 of the Management and Governance Part;

(16) where applicable, documentation regarding *interoperability arrangements* entered into with other *CCPs*;

(17) the information under 9.1(2)(g) and 9.1(4) of the Management and Governance Part; and

(18) the relevant documents describing the development of new business initiatives.

5.3 A *CCP* must retain the records specified in this Chapter for activities related to its business and internal organisation in the format set out in Table 3 (Business records) in the Annex to this Part.

6 RECORDS OF DATA REPORTED TO A TRADE REPOSITORY

6.1 A *CCP* must identify and retain all information and data required to be reported in accordance with Article 9 of *EMIR*, along with a record of the date and time that the transaction is reported.

Near-final

ANNEX

Table 1: Records of transactions processed

	Field	Format	Description
1	Reporting timestamp	ISO 8601 date format / UTC time format.	Date and time of reporting.
2	Price/rate	Up to 20 numerical digits in the format xxxx,yyyyy.	The price per security or derivative contract excluding commission and (where relevant) accrued interest. In the case of a debt instrument, the price may be expressed either in terms of currency or as a percentage.
2a	Price notation	E.g. ISO 4217 Currency Code, 3 alphabetical digits, percentage.	The manner in which the price is expressed.
3	Notional Currency	ISO 4217 Currency Code, 3 alphabetical digits.	The currency in which the price is expressed. If, in the case of a bond or other form of securitised debt, the price is expressed as a percentage, that percentage shall be included.
3a	Deliverable currency	ISO 4217 Currency Code, 3 alphabetical digits.	The currency to be delivered.
4	Quantity	Up to 10 numerical digits.	The number of units of the financial instruments, the nominal value of bonds, or the number of derivative contracts included in the transaction.
5	Quantity notation	Up to 10 numerical digits.	An indication as to whether the quantity is the number of units of financial instruments, the nominal value of bonds or the number of derivative contracts.
6	CCP side	B=Buyer / S=Seller.	
7	Product ID	Taxonomy in accordance with the information in Article 7 of the EMIR Technical Standards on the Standards, Formats, Frequency and Methods and Arrangements for	The contract shall be identified by using a product identifier, where available.

Near-final

		Reporting 2023, ISIN or a unique product identifier (UPI).	
8	Clearing member ID	Legal Entity Identifier (LEI) (20 alphanumerical digits), interim entity identifier (20 alphanumerical digits), BIC (11 alphanumerical digits) or client code (50 alphanumerical digits).	In case the reporting counterparty is not a *clearing member*, its *clearing member* shall be identified in this field by a unique code. In case of an individual, a client code, as assigned by the *CCP*, shall be used.
9	Beneficiary ID	Legal Entity Identifier (LEI) (20 alphanumerical digits), interim entity identifier (20 alphanumerical digits), BIC (11 alphanumerical digits) or client code (50 alphanumerical digits).	If the beneficiary of the contract is not a C/P to this contract it has to be identified by a unique code or, in case of individuals, by a client code as assigned by the legal entity used by the individual.
10	Party that transferred the contract (in case of give-up)	Legal Entity Identifier (LEI) (20 alphanumerical digits), interim entity identifier (20 alphanumerical digits), BIC (11 alphanumerical digits) or client code (50 alphanumerical digits).	
11	Venue of execution	ISO 10383 Market Identifier Code (MIC) where relevant, XOFF for listed derivatives that are traded off-exchange or XXXX for OTC derivatives.	Identification of the venue where the transaction was executed. In case of a contract concluded OTC, it has to be identified whether the respective instrument is admitted to trading but traded OTC or not admitted to trading and traded OTC.
12	Date of interposition	ISO 8601 date format.	The day on which the interposition of the *CCP* in the contract was executed.
13	Time of interposition	UTC time format.	The time at which the interposition of the *CCP* in the contract was executed, reported in the local time of the competent authority to which the transaction will be reported, and the basis in which the transaction is reported expressed as Coordinated Universal Time (UTC) +/- hours.

Near-final

14	Date of termination of the contract	ISO 8601 date format.	The day on which the termination of the contract occurred.
15	Time of termination of the contract	UTC time format.	The time at which the termination of the contract occurred, reported in the local time of the competent authority to which the transaction will be reported, and the basis in which the transaction is reported expressed as Coordinated Universal Time (UTC) +/- hours.
16	Delivery type	C = cash, P = physical, O = optional for counterparty.	Whether the contract is settled physically or in cash.
17	Settlement date	ISO 8601 date format.	The day on which the settlement or the buy-in of the contract is executed. If more than one, further fields may be identified.
18	Time of settlement or buy-in in the contract	UTC time format.	The time at which the settlement or the buy-in of the contract is executed, reported in the local time of the competent authority to which the transaction will be reported, and the basis in which the transaction is reported expressed as Coordinated Universal Time (UTC) +/- hours.
Details on the original terms of the contracts cleared, to be provided to the extent they are applicable			
19	Date	ISO 8601 date format.	The day on which the contract was originally concluded.
20	Time	UTC time format.	The time at which the original contract was originally concluded, reported in the local time of the competent authority to which the transaction will be reported, and the basis in which the transaction is reported expressed as Coordinated Universal Time (UTC) +/- hours.
21	Product ID	Taxonomy in accordance with the information in Article 7 of the EMIR Technical Standards on the	The contract shall be identified by using a unique product identifier where available.

Near-final

		Standards, Formats, Frequency and Methods and Arrangements for Reporting 2023, ISIN or a unique product identifier (UPI).	
22	Underlying	A unique product identifier, ISIN (12 alphanumerical digits and CFI (6 alphanumerical digits). Legal Entity Identifier (LEI) (20 alphanumerical digits), interim entity identifier (20 alphanumerical digits), B= Basket, or I=Index.	The instrument identification applicable to the security that is the underlying asset in a derivative contract as well as the transferable security falling within Article 2(1)(24)(c) of *MIFIR*.
23	Derivative type (in case of derivative contract)	The harmonised description of the derivative type should be done according to one of the top level categories as provided by a uniform internationally accepted standard for financial instrument classification.	
24	Inclusion of the instrument in the Bank register of contracts subject to the clearing obligation (in case of derivative contract)	Y=Yes / N=No.	
Other information to be provided to the extent they are applicable			
25	Identification of the interoperable CCP clearing one leg of the transaction	Legal Entity Identifier (LEI) (20 alphanumerical digits), interim entity identifier (20 alphanumerical digits), BIC (11 alphanumerical digits) or client code (50 alphanumerical digits).	

Near-final

Table 2: Position records

	Field	Format
1	Clearing member ID	Legal Entity Identifier (LEI), interim entity identifier or BIC
2	Beneficiary ID	Legal Entity Identifier (LEI), interim entity identifier, BIC or Client Code
3	Interoperable CCP maintaining the position	Legal Entity Identifier (LEI), interim entity identifier, BIC or Client Code
4	Sign of the position	B=Buyer / S=Seller.
5	Value of the position	Up to 10 numerical digits (xxxx,yy).
6	Price at which the contracts are valued	Up to 10 numerical digits (xxxx,yy).
7	Currency	ISO Currency Code
8	Other relevant information	Free Text
9	Amount of margin called by the CCP	Up to 10 numerical digits (xxxx,yy).
10	Amount of default fund contributions called by the CCP	Up to 10 numerical digits (xxxx,yy).
11	Amount of other financial resources called by the CCP	Up to 10 numerical digits (xxxx,yy).
12A	Amount of margin posted by the clearing member with reference to client account A	Up to 10 numerical digits (xxxx,yy).
13A	Amount of default fund contributions posted by the clearing member with reference to client account A	Up to 10 numerical digits (xxxx,yy).
14A	Amount of other financial resources posted by the clearing member with reference to client account A	Up to 10 numerical digits (xxxx,yy).
15B	Amount of margin posted by the clearing member with reference to client account B	Up to 10 numerical digits (xxxx,yy).
16B	Amount of default fund contributions posted by the clearing member with reference to client account B	Up to 10 numerical digits (xxxx,yy).
17B	Amount of other financial resources posted by the clearing member with reference to client account B	Up to 10 numerical digits (xxxx,yy).

Near-final

Table 3: Business records

	Field	Format	Description
1	Organisational charts	Free text	*Board* and relevant committees, clearing unit, risk management unit, and all other relevant units or divisions.
Shareholders or members that have qualifying holdings (fields to be added for each of the relevant shareholder/member)			
2	Type	S=Shareholder / M=member	
3	Type of qualified holding	D=direct / I=indirect	
4	Type of entity	N=natural person / L=legal person	
5	Amount of the holding	Up to 10 numerical digits (xxxx,yy).	
Other documents			
6	Policies, procedures, processes required under organisational requirements	Documents	
7	Minutes of board meetings, meeting of sub-committees (if applicable) and of senior management committees (if applicable)	Documents	
8	Minutes of meetings of the risk committee	Documents	
9	Minutes of consultation group with clearing members and clients (if any)	Documents	
10	Reports of internal and external audit, risk management,	Documents	

Near-final

	compliance and consultant		
11	Business continuity policy and disaster recovery plan	Documents	
12	Liquidity plan and daily liquidity reports	Documents	
13	Documents reflecting all assets and liabilities and capital accounts	Documents	
14	Complaints received	Free text	For each complaint: information on complaint's name, address and account number; date of receiving the complaint; names of all persons identified in the complaint; description of the nature of the complaint; disposition of the complaint; date at which the complaint was resolved.
15	Information on interruption of services or dysfunction	Free text	Information on any interruption of services or dysfunction, including a detailed report on the timing, effects and remedial actions.
16	Results of back and stress test performed	Free text	
17	Written communications with the Bank	Documents	
18	Legal opinions received in accordance with organisational requirements	Documents	
19	Interoperability arrangements with other CCPs (where applicable)	Documents	

Near-final

20	List of all clearing members (9.1(4) of the Management and Governance Part)	Free text / Document	List in accordance with 9.1(4) of the Management and Governance Part.
21	Information required by 9.1(2)(g) of the Management and Governance Part	Free text / Documents	Law and Rules governing (i) the access to the *CCP*, (ii) the contracts concluded by the *CCP* with *clearing members* and, where practicable, *clients*, (iii) the contracts that the *CCP* accepts for *clearing*, (iv) any *interoperability arrangements*, (v) the use of collateral and *default fund* contributions, including the liquidation of positions and collateral and the extent to which collateral is protected against third party claims (level of segregation).
22	Development on new initiative processes	Free text	In case of the provision of new services.

Near-final

ANNEX E

Business Continuity Part

In this Annex, the text is all new and is not underlined.

BUSINESS CONTINUITY

Chapter content

1. **APPLICATION**
2. **BUSINESS CONTINUITY POLICY AND DISASTER RECOVERY PLAN**
3. **STRATEGY AND POLICY**
4. **BUSINESS IMPACT ANALYSIS AND SCENARIO-BASED RISK ANALYSIS**
5. **DISASTER RECOVERY**
6. **TESTING AND MONITORING**
7. **MAINTENANCE**
8. **CRISIS MANAGEMENT**
9. **REPORTING TO THE BOARD**

Near-final

1 APPLICATION

1.1 This Part applies to a *UK CCP*.

2 BUSINESS CONTINUITY POLICY AND DISASTER RECOVERY PLAN

2.1 A *CCP* must establish, implement and maintain an adequate business continuity policy and a disaster recovery plan aimed at ensuring the preservation of its functions, the timely recovery of operations and the fulfilment of the *CCP's* obligations.

2.2 A *CCP* must establish, implement and maintain an adequate procedure ensuring the timely and orderly settlement or transfer of the assets and positions of *clients* and *clearing members* in the event that the recognition order for that *CCP* is revoked pursuant to section [297(1A)] of *FSMA*.

3 STRATEGY AND POLICY

3.1 A *CCP* must ensure that its business continuity policy and disaster recovery plan:

(1) are approved by the *board*;

(2) are subject to independent reviews which are reported to the *board;* and

(3) contain clearly defined and documented arrangements which are designed to ensure a minimum service level of critical business functions in the event of extreme scenarios such as an emergency, disaster or crisis.

3.2 A *CCP* must ensure that its business continuity policy:

(1) identifies all critical business functions and related systems;

(2) includes the *CCP's* strategy, policy, and objectives to ensure the continuity of those functions and systems;

(3) takes into account:

(a) external links and interdependencies within the financial infrastructure, including:

(i) *trading venues* on which financial instruments cleared by the *CCP* are traded; and

(ii) securities settlement systems, payment systems and *credit institutions* used by the *CCP* or an *interoperable CCP*; and

(b) the impact of any outsourcing to third party providers of critical business functions and related systems;

(4) identifies the maximum acceptable time (which must not be more than two hours) for which critical business functions and systems may be unusable; and

(5) ensures that end of day procedures and payments are completed at the required time on the required day in all circumstances.

3.3 A CCP must take into account the potential overall impact on market efficiency in determining the recovery times for each critical business function in accordance with 3.2(4).

3.4 A *CCP* must ensure that its disaster recovery plan:

(1) identifies and includes recovery point objectives and recovery time objectives for critical business functions;

(2) determines the most suitable recovery strategy for each of these functions; and

(3) is designed to ensure that in extreme scenarios critical business functions are completed on time and that the service levels specified in the business continuity policy are met.

4 BUSINESS IMPACT ANALYSIS AND SCENARIO-BASED RISK ANALYSIS

4.1 A *CCP* must:

(1) conduct a business impact analysis which is designed to identify the business functions which are critical to ensure the services of the *CCP*; and

(2) as part of that analysis, consider the criticality of these functions to other institutions and functions in the financial infrastructure.

4.2 A *CCP* must conduct a scenario-based risk analysis which is designed to identify how various scenarios affect the risks to its critical business functions.

4.3 A *CCP* must:

(1) take into account dependencies on external providers, including utility services, in assessing risks; and

(2) take action to manage such dependencies through appropriate contractual and organisational arrangements.

4.4 A *CCP* must ensure that its business impact analysis and scenario analysis:

(1) are kept up to date;

(2) are reviewed at least annually and following an incident or significant organisational change; and

(3) take into account all relevant developments, including market and technology developments.

5 DISASTER RECOVERY

5.1 A *CCP* must:

(1) have in place arrangements to ensure continuity of its critical business functions based on disaster scenarios;

(2) ensure that these arrangements:

(a) address matters including the availability of adequate staff, the maximum downtime of critical business functions, and failover and recovery to a secondary site; and

(b) allow for the recovery of all unsettled transactions at the time of disruption to allow the *CCP* to continue to operate with certainty and to complete settlement on the scheduled date.

5.2 A *CCP* must:

(1) maintain a secondary processing site capable of ensuring continuity of all critical business functions of the *CCP* at a level identical to the primary site; and

(2) ensure that the secondary site has a geographical risk profile which is distinct from that of the primary site.

5.3 A *CCP* must maintain immediate access to a secondary business site which is sufficient to allow staff to ensure continuity of service if the primary location of the business is not available.

5.4 A *CCP* must consider the need for additional processing sites, in particular if the diversity of the risk profiles of the primary and secondary sites does not provide sufficient confidence that the *CCP's* business continuity objectives will be met in all scenarios.

6 TESTING AND MONITORING

6.1 A *CCP* must:

(1) test and monitor its business continuity policy and disaster recovery plan at regular intervals and after significant modifications or changes to its systems or related functions to ensure that they achieve their stated objectives, including (in the case of the business continuity policy) the two-hour maximum recovery time objective; and

(2) ensure that tests are planned and documented.

6.2 A *CCP* must ensure that the testing of the business continuity policy and disaster recovery plan fulfils the following conditions:

(1) it involves scenarios of large-scale disasters and switchovers between primary and secondary sites;

(2) it includes the involvement of *clearing members*, external providers and relevant institutions in the financial infrastructure with which interdependencies have been identified in the business continuity policy.

7 MAINTENANCE

7.1 A *CCP* must regularly review and update its business continuity policy to include all critical business functions and the most suitable recovery strategy for them.

7.2 A *CCP* must regularly review and update its disaster recovery plan to include the most suitable recovery strategy for all critical business functions.

7.3 A *CCP* must take into consideration the outcome of testing and the recommendations of any independent reviews and other reviews when updating its business continuity policy and disaster recovery plan.

7.4 *A CCP* must review its business continuity policy and disaster recovery plan after every significant disruption, to identify the causes and any required improvements to the *CCP's* operations, business continuity policy and disaster recovery plan.

8 CRISIS MANAGEMENT

8.1 A *CCP* must have a crisis management function to act in case of an emergency.

8.2 A *CCP* must ensure that, as part of its crisis management function, it maintains crisis management procedures that are clear and documented in writing.

8.3 A *CCP* must ensure that the *board* monitors the crisis management function and regularly receives and reviews reports on it.

8.4 A *CCP* must ensure that its crisis management procedures include:

(1) well-structured and clear procedures to manage internal and external communications during a crisis event; and

(2) a communication plan which documents the way in which the *senior management*, the *board* and relevant external stakeholders, including the *Bank* and other supervisory authorities, *clearing members*, *clients*, settlement agents, securities settlement and payment systems and *trading venues*, will be kept adequately informed during a crisis.

8.5 Following a crisis event, a *CCP* must undertake a review of its handling of the crisis, which must, where relevant, incorporate contributions from *clearing members* and other external stakeholders.

9 REPORTING TO THE BOARD

9.1 A *CCP* must ensure that business impact analysis and scenario-based risk analysis, reviews and results of monitoring and tests are reported to the *board*.

Annex F

Operational Resilience Part

In this Annex, the text is all new and is not underlined.

OPERATIONAL RESILIENCE

Chapter content

1. **APPLICATION**
2. **OUTSOURCING**
3. **INFORMATION TECHNOLOGY SYSTEMS**

1 APPLICATION

1.1 This Part applies to a *UK CCP*.

2 OUTSOURCING

2.1 Where a *CCP* outsources operational functions, services or activities, it must remain fully responsible for discharging all of its obligations under the *CCP requirements* and must ensure at all times that:

(1) outsourcing does not result in the delegation of its responsibility;

(2) the relationship and obligations of the *CCP* towards its *clearing members* or, where relevant, towards their *clients* are not altered;

(3) the conditions for recognition of the *CCP* do not effectively change;

(4) outsourcing does not prevent the exercise of supervisory and oversight functions, including on-site access to acquire any relevant information needed to fulfil those functions;

(5) outsourcing does not result in depriving the *CCP* of the necessary systems and controls to manage the risks it faces;

(6) the service provider implements equivalent business continuity requirements to those that the *CCP* must fulfil under the Business Continuity Part;

(7) the *CCP*:

(a) retains the necessary expertise and resources to:

(i) evaluate the quality of the services provided and the organisational and capital adequacy of the service provider;

(ii) supervise the outsourced functions effectively;

(iii) manage the risks associated with the outsourcing; and

(b) supervises those functions and manages those risks on an ongoing basis;

(8) the *CCP* has direct access to the relevant information of the outsourced functions;

(9) the service provider cooperates with the *Bank* in connection with the outsourced activities; and

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(10) (a) the service provider protects any confidential information relating to the *CCP* and its *clearing members* and *clients*; or

(b) where that service provider is established in a country or territory other than the *UK*, that the data protection standards of that country or territory, or those set out in the agreement between the parties concerned, are comparable to the data protection standards in effect in the *UK*.

2.2 A *CCP* must not outsource major activities linked to risk management unless the *Bank* first grants the *CCP* a *section 138BA permission* to do so.

2.3 A *CCP* must set out its rights and obligations, and those of the service provider, clearly in a written agreement.

2.4 A *CCP* must be able to provide all information necessary to enable the *Bank* to assess the compliance of the outsourced activities with this Part.

3 INFORMATION TECHNOLOGY SYSTEMS

3.1 A *CCP* must ensure its information technology systems are reliable and secure as well as capable of processing the information necessary for the *CCP* to perform its activities and operations in a safe and efficient manner.

3.2 A *CCP* must ensure the information technology architecture is well-documented.

3.3 A *CCP* must ensure that its information technology systems are:

(1) designed to deal with the *CCP*'s operational needs and the risks the *CCP* faces;

(2) resilient, including in stressed market conditions; and

(3) scalable, if necessary, to process additional information.

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3.4 A *CCP* must provide for procedures and capacity planning as well as for sufficient redundant capacity to allow the system to process all remaining transactions before the end of the day where a major disruption occurs.

3.5 A *CCP* must provide for procedures for the introduction of new technology including clear reversion plans.

3.6 A *CCP* must base its information technology systems on internationally recognised technical standards and industry best practices to ensure a high degree of security in information processing and to enable connectivity with its *clearing members* and *clients* and with its service providers.

3.7 (1) A *CCP* must subject its systems to stringent testing, simulating stressed conditions, before initial use, after making significant changes and after a major disruption has occurred.

(2) A *CCP* must consult *clearing members* and *clients*, *interoperable CCPs* and other interested parties as appropriate in the design and conduct of these tests.

3.8 (1) A *CCP* must maintain a robust information security framework that appropriately manages its information security risk.

(2) A *CCP* must ensure that its information security framework includes appropriate mechanisms, policies and procedures to protect information from unauthorised disclosure and to ensure data accuracy and integrity and to maintain the availability of the *CCP's* services.

(3) A *CCP* must ensure that its information security framework includes at least all of the following features:

(a) access controls to the system;

(b) adequate safeguards against intrusions and data misuse;

(c) specific devices to preserve data authenticity and integrity, including cryptographic techniques;

(d) reliable networks and procedures for accurate and prompt data transmission without major disruptions; and

(e) audit trails.

3.9 A *CCP* must review the information technology systems and the information security framework at least annually and subject them to independent audit assessments.

3.10 A *CCP* must report the results of assessments made under 3.9 to the *board* and make them available to the *Bank*.

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Annex G

Conduct of Business Part

In this Annex, the text is all new and is not underlined.

CONDUCT OF BUSINESS

Chapter content

1. **APPLICATION**
2. **GENERAL PROVISIONS**
3. **PARTICIPATION REQUIREMENTS**
4. **TRANSPARENCY**
5. **SEGREGATION AND PORTABILITY**

1 APPLICATION

1.1 This Part applies to a *UK CCP*.

2 GENERAL PROVISIONS

2.1 When providing services to its *clearing members*, and where relevant, to their *clients*, a *CCP* must act fairly and professionally in accordance with:

(1) the best interests of such *clearing members* and *clients*; and

(2) sound risk management.

2.2 A *CCP* must have accessible, transparent and fair rules for the prompt handling of complaints.

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3 PARTICIPATION REQUIREMENTS

3.1 A *CCP* must establish, where relevant for each type of product cleared, the categories of admissible *clearing members* and the admission criteria, taking into account the advice of the risk committee in accordance with Chapter 13 of Management and Governance Part.

3.2 A *CCP* must ensure that the admission criteria:

(1) are non-discriminatory, transparent and objective so as to ensure fair and open access to the *CCP*;

(2) ensure that *clearing members* have sufficient financial resources and operational capacity to meet the obligations arising from participation in a *CCP*; and

(3) only restrict access to the extent that the objective of the *CCP* is to control the risk for the *CCP*.

3.3 A *CCP* must ensure:

(1) that the criteria referred to in 3.1 and 3.2 are applied on an ongoing basis; and

(2) it has timely access to the information relevant for such assessment.

3.4 A *CCP* must conduct, at least annually, a comprehensive review of whether its *clearing members* meet the criteria referred to in 3.1 and 3.2.

3.5 A *CCP* must ensure that its rules allow the *CCP* to gather from *clearing members* relevant basic information to identify, monitor and manage relevant concentrations of risk relating to the provision of services to *clients*.

3.6 A *CCP* must have objective and transparent procedures for the suspension and orderly exit of *clearing members* that no longer meet the criteria referred to in 3.1 and 3.2.

3.7 A *CCP* may only deny access to *clearing members* meeting the criteria referred to in 3.1 and 3.2 where:

(1) duly justified in writing; and

(2) based on a comprehensive risk analysis.

3.8 A *CCP* may include provisions in its rules that impose specific additional obligations on *clearing members*, such as an obligation to participate in auctions of a defaulting *clearing member's* position. These additional obligations must:

(1) be proportionate to the risk brought by the *clearing member*; and

(2) not restrict participation to certain categories of *clearing members*.

3.9 A *CCP* must allow its *clearing members* direct access, and where relevant their *clients* via a *clearing member* indirect access, to the specific services provided.

4 TRANSPARENCY

4.1 A *CCP* must:

(1) publicly disclose the prices and fees associated with the services provided using numerical figures;

(2) disclose the prices and fees of each service provided separately using numerical figures, including discounts and rebates and the conditions to benefit from those reductions; and

(3) ensure that it is possible to reasonably estimate, and therefore compare, the costs of services provided by different *CCPs*.

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4.2 A *CCP* must account separately for costs and revenues of the services provided and must disclose that information to the *Bank*.

4.3 A *CCP* must disclose to *clearing members* and *clients* the risks associated with the services provided.

4.4 A *CCP:*

(1) must disclose to its *clearing members* and to the *Bank* the price information used to calculate its end-of-day exposures to its *clearing members*, including any intermediate price inputs where relevant, such as quotes provided by market participants.

(2) may make the disclosures referred to in (1) on an anonymised basis.

4.5 A *CCP* must publicly disclose the volumes of the cleared transactions for each class of instruments cleared by the *CCP* on an aggregated basis.

4.6 A *CCP* must publicly disclose the operational and technical requirements relating to the communication protocols covering content and message formats it uses to interact with third parties including the operational and technical requirements referred to in Article 7 (Access to a CCP) of *EMIR.*

4.7 A *CCP* must publicly disclose any breaches by *clearing members* of the admission criteria referred to in 3.2 (2) and any requirements to publicly disclose the prices and fees associated with each *client* clearing services they provide, including discounts and rebates and the

conditions to benefit from those reductions unless the *Bank* imposes a requirement on the *CCP* providing that the *CCP* must not disclose any such breaches.

5 SEGREGATION AND PORTABILITY

5.1 A *CCP* must keep separate records and accounts that enable it, at any time and without delay, to distinguish in accounts with the *CCP* the assets and positions held for the account of one *clearing member* from the assets and positions held for the account of any other *clearing member* and from its own assets.

5.2 A *CCP* must offer to keep separate records and accounts enabling each *clearing member* to distinguish in accounts with the *CCP* the assets and positions of that *clearing member* from those held for the accounts of its *clients* ('omnibus client segregation').

5.3 A *CCP* must offer to keep separate records and accounts enabling each *clearing member* to distinguish in accounts with the *CCP* the assets and positions held for the account of a *client* from those held for the account of other *clients* ('individual client segregation').

5.4 A *CCP* must offer a *clearing member* the possibility to open, on request, more accounts in its own name or for the account of its *clients*.

5.5 A *CCP* must have arrangements in place to ensure that when a *client* opts for individual client segregation, any *margin* in excess of the *client's* requirement posted to the *CCP* is distinguished from the *margin* of other *clients* or *clearing members* and is not exposed to losses connected to positions recorded in another account.

5.6 A *CCP* must:

(1) publicly disclose the levels of protection and the costs associated with the different levels of segregation that they provide and must offer those services on reasonable commercial terms; and

(2) provide details of the different levels of segregation, including a description of the main legal implications of the respective levels of segregation offered including information on the insolvency law applicable in the relevant jurisdictions.

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5.7 A *CCP* may only have a right of use over *margin* or *default fund* contributions received by way of a *security financial collateral arrangement* or an *equivalent collateral arrangement* where:

(1) the use of such arrangements is provided for in its operating rules; and

(2) the relevant *clearing member* has confirmed its acceptance of those operating rules in writing.

5.8 In relation to any such right of use as referred to in 5.7, the *CCP* must:

(1) publicly disclose that right of use; and

(2) exercise that right of use in accordance with 4.4 of the Investment Policy Part.

5.9 A *CCP* must:

(1) record assets and positions in separate accounts;

(2) prevent the netting of positions recorded on different accounts; and

(3) not expose the assets covering the positions recorded in an account to losses connected to positions recorded in another account.

5.10 For the purposes of this Chapter, assets refer to collateral held to cover positions and include the right to the transfer of assets equivalent to that collateral or the proceeds of the realisation of any collateral but does not include *default fund* contributions.

Near-final

Annex H

Exposure Management Part

In this Annex, the text is all new and is not underlined.

EXPOSURE MANAGEMENT

Chapter content

1. **APPLICATION**
2. **EXPOSURE MANAGEMENT**

1 APPLICATION

1.1 This Part applies to a *UK CCP*.

2 EXPOSURE MANAGEMENT

2.1 A *CCP* must:

(1) measure and assess its liquidity and credit exposures to each *clearing member* and, where relevant, to another *CCP* with which it has concluded an *interoperability arrangement*, on a near to real-time basis; and

(2) where it is reasonably able to do so having regard to the costs, ensure that it has access in a timely manner and on a non-discriminatory basis to the relevant pricing sources to effectively measure its exposures.

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Annex I

Margin Requirements Part

In this Annex, the text is all new and is not underlined.

MARGIN REQUIREMENTS

Chapter content

1. **APPLICATION**
2. **MARGIN FRAMEWORK**
3. **CALCULATION OF REGULATORY INITIAL MARGIN**
4. **MARGIN TRANSPARENCY**
5. **MARGIN SIMULATOR**

1 APPLICATION

1.1 This Part applies to a *UK CCP*.

2 MARGIN FRAMEWORK

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2.1 A *CCP* must call and collect the following amounts of collateral from its *clearing members* and *CCP*s with which it has *interoperability arrangements*:

(1) an amount to cover its potential future exposures to *clearing members* (and, where relevant, to *interoperable CCP*s) arising in the interval between the last collection of collateral and the liquidation of positions following the default of a *clearing member* (or, as the case may be, an *interoperable CCP)* ("*initial margin*"); and

(2) an amount to reflect current exposures *to clearing members* (and, where relevant, to *interoperable CCPs*) resulting from actual changes in market price ("*variation margin*").

2.2 The *initial margin* referred to in 2.1 must be at least equal to the amount of collateral calculated by a *CCP* in accordance with Chapter 3.

Review of margin

2.3 A *CCP* must continuously monitor and, if necessary, revise the levels of *margin* that it calls and collects to reflect current market conditions.

2.4 In revising *initial margin* levels in accordance with 2.3, a *CCP* must:

(1) take into account any potentially procyclical effects, referred to in 3.17 to 3.27, of such revisions;

(2) avoid when possible disruptive or large changes in *initial margin*; and

(3) establish transparent and predictable procedures for adjusting *initial margin* in response to changing market conditions.

Frequency of margin calls

2.5 Subject to 2.6, a *CCP* must call and collect *margin* at least on a daily basis.

2.6 A *CCP* must call and collect *margin* on an intraday basis, when predefined thresholds are exceeded or otherwise as considered necessary by the *CCP*.

2.7 A *CCP* must consider the potential impacts of intraday collections of *margin* and payments on the liquidity position of its *clearing members*.

Margin calls at instrument or portfolio level

2.8 Subject to 2.9, a *CCP* must call and collect *margin* that is adequate to cover the risk stemming from the positions registered in each account kept in accordance with Chapter 5 of the Conduct of Business Part with respect to specific financial instruments.

2.9 A *CCP* may calculate the *margin* that it calls and collects with respect to a portfolio of financial instruments provided that the methodology used is prudent and robust.

Portfolio margining

2.10 A *CCP* may allow offsets or reductions in the *margin* that it calls and collects across the financial instruments that it clears if the price risk of one financial instrument or a set of financial instruments is:

(1) significantly and reliably correlated; or

(2) based on an equivalent statistical parameter of dependence,

with the price risk of other financial instruments.

2.11 A *CCP* must document its approach on portfolio margining. In documenting its approach, a *CCP* must demonstrate:

(1) that the correlation, or equivalent statistical parameter of dependence, between the relevant financial instruments cleared is:

(a) reliable over the *lookback period* calculated in accordance with 3.9 to 3.12; and

(b) resilient during stressed historical or hypothetical scenarios; and

(2) the existence of an economic rationale for the price relationship between the relevant financial instruments.

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2.12 All financial instruments to which portfolio margining is applied must be covered by the same default fund unless the *CCP* has first received from the *Bank* a *section 138BA permission* permitting the application of portfolio margining to financial instruments covered by different default funds.

2.13 Subject to 2.14, where portfolio margining covers multiple financial instruments, the amount of reductions in *margin* that the *CCP* calls and collects must be no greater than 80% of the difference between the sum of the *margin* for each financial instrument calculated on an individual basis and the *margin* calculated based on a combined estimate of the exposure for the combined portfolio.

2.14 Where a *CCP* is not exposed to any potential risk from the reduction in the *margin* that it calls and collects, it may apply a reduction of up to 100% of that difference.

2.15 A *CCP* must subject the offsets or reductions in *margin* that it calls and collects related to portfolio margining referred to in 2.10 to 2.14 to a sound stress test programme in accordance with the Review and Testing of Models and Parameters Part.

3 CALCULATION OF REGULATORY INITIAL MARGIN

Design and adoption

3.1 A *CCP* must develop models and parameters in setting its requirements on *initial margin* that:

(1) capture the risk characteristics of the products cleared; and

(2) take into account the interval between collections of *margin*, market liquidity and the possibility of changes over the duration of the transaction.

3.2 A *CCP* must not adopt the models referred to in 3.1 unless the *Bank* has first granted the *CCP* a *section 138BA permission*.

3.3 A *CCP* must adopt methodologies for the calculation of additional amounts of collateral to cover market and non-market risks that are not fully covered by the model for *initial margin* ("*add-ons*").

3.4 A *CCP* must calculate *regulatory initial margin* to cover the exposures arising from market movements of each financial instrument;

(1) over the time period specified in 3.9 to 3.12; and

(2) assuming a time horizon for the liquidation of the position as specified in 3.13 to 3.16.

Confidence intervals

3.5 For the calculation of *regulatory initial margin* other than *add-ons* for non-market risk, a *CCP* must use the following *confidence intervals*:

(1) for *OTC derivatives* other than those referred to in paragraph (3), at least 99.5%;

(2) for financial instruments other than *OTC derivatives*, at least 99%; and

(3) for *OTC derivatives* satisfying the criteria in 3.8, at least 99%.

3.6 For the determination of the adequate *confidence interval* for each class of financial instruments it clears, a *CCP* must consider at least the following factors:

(1) the complexities and level of pricing uncertainties of the class of financial instruments which may limit the validation of the calculation of *margin*;

(2) the risk characteristics of the class of financial instruments, which can include, but are not limited to, volatility, duration, liquidity, non-linear price characteristics, jump to default risk and *wrong way risk*;

(3) the degree to which other risk controls do not adequately limit credit exposures; and

(4) the inherent leverage of the class of financial instruments, including whether the class of financial instrument is significantly volatile, is highly concentrated among a few market players or may be difficult to close out.

Near-final

3.7 A *CCP* must inform the *Bank* and its *clearing members* of the criteria considered to determine the *confidence interval* applied to the calculation of the *regulatory initial margin* for each class of financial instruments.

3.8 The *OTC derivatives* referred to in 3.5(3) are *OTC derivatives* that have the same risk characteristics as *derivatives* executed on a *UK regulated market* or an *equivalent overseas market*, on the basis of an assessment of the risk factors set out in 3.6, provided that the risks of those *OTC derivatives* are appropriately mitigated by using the *confidence interval* specified in 3.5(3).

Time horizon for the calculation of historical volatility

3.9 A *CCP* must ensure that according to its model methodology and its validation process established in accordance with the Review of Testing of Models and Parameters Part, *regulatory initial margin* covers the exposures resulting from historical volatility calculated

based on data covering at least the latest 12 months with at least the *confidence interval* specified in 3.5 to 3.8 and for the *liquidation period* specified in 3.13 to 3.16.

3.10 A *CCP* must ensure that the data used for calculating historical volatility capture a full range of market conditions, including periods of stress.

3.11 A *CCP* may use any other time horizon for the calculation of historical volatility provided that the use of such time horizon results in *regulatory initial margin* requirements at least as high as those obtained with the time period specified in paragraph 3.9.

3.12 For financial instruments without a historical observation period, a *CCP* must base model parameters on conservative assumptions and must promptly adapt the calculation of *regulatory initial margin* based on an analysis of the price history of the new financial instruments.

Time horizons for the liquidation period

3.13 When determining the appropriate time horizon for the liquidation of positions when calculating *regulatory initial margin* in accordance with 3.4(2), a *CCP* must take into account:

(1) the characteristics of the financial instrument cleared;

(2) the characteristics of the type of account in which the financial instrument is held;

(3) the characteristics of the market where the financial instrument is traded; and

(4) (subject to 3.16) the following minimum time horizons for the *liquidation period*:

(a) five *trading days* for *OTC derivatives*;

(b) two *trading days* for financial instruments other than *OTC derivatives* held in accounts not meeting the conditions laid down in subparagraph (c);

(c) one *trading day* for financial instruments other than *OTC derivatives* held in omnibus client accounts or in individual client accounts provided that the following conditions are met:

(i) the *CCP* keeps separate records of the positions of each *client* at least at the end of each day, calculates the *margin* in respect of each *client*, and collects the sum of the *margin* applicable to each *client* on a gross basis;

(ii) the identity of all the *clients* is known to the *CCP*;

(iii) the positions held in the account are not proprietary positions of undertakings of the same *group* as the *clearing member*;

(iv) the *CCP* measures the exposures and calculates for each account *margin* on a near to real-time basis and at least hourly during the day using updated positions and prices; and

(v) where the *CCP* does not allocate new trades to each *client* during the day, and to the extent that trades previously allocated to *clients* are margined separately from trades that are not allocated during the day, the *CCP* collects the *margin* within one hour where the *margin* calculated in accordance with subparagraph (iv) is higher than 110% of the updated available collateral in accordance with the Collateral Part unless the *Bank* has first granted the *CCP* a *section 138BA permission* not to do so.

3.14 In all cases, for determining the appropriate time horizons for the *liquidation period*, a *CCP* must determine and sum at least the following:

(1) the longest possible period that may elapse from the last collection of *initial margin* or *variation margin* up to the declaration of default by the *CCP* or activation of the default management process by the *CCP*;

Near-final

(2) the estimated period needed to design and execute the strategy for the management of the default of a *clearing member* according to the particularities of each class of financial instrument, including its level of liquidity and the size and concentration of the positions, and the markets the *CCP* will use to close-out or hedge completely a *clearing member* position; and

(3) where relevant, the period needed to cover the counterparty risk to which the *CCP* is exposed.

3.15 In determining the periods referred to in 3.14, a *CCP* must consider at least:

(1) the factors indicated in 3.6; and

(2) the time period for the calculation of historical volatility as specified in 3.9 to 3.12.

3.16 Where a *CCP* clears *OTC derivatives* that have the same risk characteristics as *derivatives* executed on *UK regulated markets* or an *equivalent overseas market*, the *CCP* must take into account the minimum time horizon for the *liquidation period* specified in 3.13(4)(a) unless the *Bank* grants the *CCP* a *section 138BA permission* to take into account a different minimum time horizon.

Procyclicality

3.17 A *CCP* must ensure that its policy for selecting and revising the *confidence interval* referred to in 3.5 to 3.8, the *lookback period* referred to in 3.9 to 3.12, and the *liquidation period* referred to in 3.13 to 3.16, delivers *regulatory initial margin* which:

(1) is forward-looking, stable and prudent; and

(2) limits procyclicality to the extent that the soundness and financial security of the *CCP* is not negatively affected.

Near-final

3.18 (1) To achieve *regulatory initial margin* which satisfies 3.17, a *CCP* must employ at least one of the following options ("*APC margin measures*"):

(a) apply a buffer at least equal to 25% of the *regulatory initial margin (*other than *add-ons* for non-market risk or the equivalent set of parameters) that would apply but for this rule 3.18(1)(a) ("unadjusted *regulatory initial margin*") and allow that buffer to be temporarily exhausted in periods where unadjusted *regulatory initial margin* is rising significantly;

(b) assign at least 25% weight to stressed observations in the *lookback period* calculated in accordance with 3.13 to 3.16; and

(c) ensure that its calculated *regulatory initial margin* other than *add-ons* for non-market risk is not lower than that which would be calculated using volatility estimated over a 10-year historical *lookback period*.

(2) A *CCP* must apply at least one of the *APC margin measures* to all material risk factors that could lead to big-stepped changes in r*egulatory initial margin*. A *CCP* may apply *APC margin measure*s at either a product or portfolio level, or at a risk-factor level, provided the application addresses all such material risk factors used in the computation of *regulatory initial margin*.

3.19 When a *CCP* sets the parameters of the model it uses in setting *regulatory initial margin* and revises those parameters in order to better reflect current market conditions, it must take into account any potential effects of those parameters or their revision on *margin coverage*, *margin cost* and *margin procyclicality*.

Procyclicality Assessment Framework

3.20 A *CCP* must identify and define an analytical framework for assessing *margin procyclicality* within the broader context of *margin coverage* and *margin cost*.

3.21 A *CCP* must use the framework in 3.20 when making governance decisions relating to model reviews and *margin model overrides*.

3.22 A *CCP* must inform the *Bank* of the framework referred to in 3.20 and its parameter choices made in accordance with 3.19.

3.23 The *CCP* must ensure that the framework is capable of being used by the *CCP* and the *Bank* to regularly monitor the performance of models for *regulatory initial margin*.

3.24 The framework referred to in 3.20 must specify:

(1) the *CCP's* tolerance for procyclicality in setting the amount of *initial margin* that it calls and collects;

(2) the quantitative metrics a *CCP* uses to assess the procyclicality of the *initial margin* that it calls and collects;

(3) the frequency at which a *CCP* conducts the assessment;

(4) the potential actions a *CCP* could take to address the outcomes of the assessment; and

(5) the governance arrangements surrounding the reporting of the outcomes of the assessment and approval of the actions a *CCP* proposes to take in relation to the outcomes.

3.25 A *CCP* must apply the metrics it uses to assess both the procyclicality of the *initial margin* that it calls and collects on a regular basis and the potential procyclicality arising from any significant proposals to revise its model parameters for *regulatory initial margin*, before making such revisions.

Near-final

3.26 Where the metrics referred to in 3.24 indicate that procyclical effects arising from the *initial margin* that it calls and collects are outside the *CCP's* tolerance referred to in 3.24(1), a *CCP* must review the measures it takes to limit procyclicality and make appropriate adjustments to its policies to ensure that, under comparable future market stress, the resulting procyclical effects would be within its tolerance.

3.27 A *CCP* must maintain records of its review, including the computed metrics, and of the actions taken to address the findings, in accordance with Chapter 2 of the Record Keeping Part.

Margin model overrides

3.28

(1) A *CCP* may deviate from its calculation of *initial margin* on the basis of its model for *regulatory initial margin* and its methodology for calculating *add-ons* (a "*margin model override*") in accordance with 3.29 and 3.30.

(2) A *margin model override* does not include the regular recalibration of *initial margin* parameters or requirements based on the credit risk of particular *clearing members*.

3.29 A *margin model override*:

(1) must be temporary;

(2) must be to:

(a) avert a serious financial stability risk; or

(b) prevent the *CCP* from breaching any regulatory requirement, or any applicable law of the *UK* (or any part of it) or any other jurisdiction;

(3) may either increase or decrease the amount of *initial margin* that would otherwise be required; and

(4) may apply to all *clearing members* or only to a subset of *clearing members* depending on the exposure of the *CCP* to those members.

3.30 A *CCP* must:

(1) have in place governance procedures for *margin model overrides* which:

(a) clearly articulate and define the instances and areas where such *margin model overrides* may be warranted; and

(b) include details of the key decision-makers and the extent to which these *margin model overrides* are permissible without requiring a model change as referred to in 13.1 of the Review and Testing of Models and Parameters Part;

(2) establish clear guidelines as well as processes which enable it to identify and monitor the overridden risk variable or model output;

(3) undertake reviews of its model performance where it makes use of a *margin model override*;

(4) ensure that the *CCP's* risk committee is provided with a supporting qualitative explanation of the reasons for, and any other relevant information about, any use of *margin model overrides*; and

(5) seek input from market participants on the design of the governance procedures at paragraph (1).

Review of models using test results

3.31 A *CCP* must have clear procedures to determine the amount of additional *regulatory initial margin* it may need to call and collect, including on an intraday basis, and to recalibrate its model for *regulatory initial margin* where back testing indicates that the model did not perform as expected with the result that it does not identify the amount of *regulatory initial margin* necessary to achieve the intended level of confidence.

3.32 Where a *CCP* has determined that it is necessary to call additional *regulatory initial margin* it must do so by the next *initial margin* call.

Near-final

4 MARGIN TRANSPARENCY

Information on margin model overrides to be disclosed to the Bank

4.1 A *CCP* must disclose to the *Bank* its governance procedures for the use of *margin model overrides*.

4.2 (1) Where a *CCP* makes use of a *margin model override*, it must disclose to the *Bank* the aggregate amount by which the *initial margin* called and collected differed from the amount that would otherwise have been required, and how long it made use of the *margin model override*.

(2) A *CCP* must support the disclosure referred to in paragraph (1) by a qualitative explanation of the reasons for the *margin model override*.

Information to be disclosed to clearing members and clients

4.3 A *CCP* must provide its *clearing members* with information on the models it uses in setting *regulatory initial margin* that enables *clearing members* to understand key aspects of the *CCP*'s models for *regulatory initial margin* and its approach to the use of *regulatory initial margin* in risk management. That information must:

(1) clearly explain the design of the models for *regulatory initial margin* and how they operate;

(2) clearly describe the key assumptions and limitations of the models for *regulatory initial margin* and the circumstances under which those assumptions are no longer valid;

(3) explain the rationale for the model used and the calibration of key model parameters, including any relevant components which affect the size and speed of *margin* requirement changes during periods of elevated stress;

(4) include the logic, applicable thresholds and descriptions of the data used for the calculation of *add-ons*; and

(5) be documented.

4.4 A CCP must, where feasible and where requested by *clients*, provide them with the information referred to in 4.3.

Information to be publicly disclosed

4.5 A *CCP* must publicly disclose and describe:

(1) (at a high level) the components of its model for *regulatory initial margin* that affect the level of model responsiveness;

(2) the anti-procyclicality measures used in those models; and

(3) the governance procedures for making use of *margin model overrides*, and the instances where it may do so;

4.6 A *CCP* must include at least the following information in the disclosure required by 4.5 for each model for *regulatory initial margin* used:

(1) the *confidence interval*;

(2) the *look-back period*;

(3) the *liquidation period*;

(4) the parameters and methodology used in the computation of offsets in *margins* under 2.10 to 2.15;

(5) further information such as quantitative methodology (e.g. the type of VaR model), the approach to any adjustments or *add-ons* made to models and their formulae;

(6) the anti-procyclicality measures adopted under 3.18(1) and the methodology and parameters used when applying the selected anti-procyclicality measures. In particular, a *CCP* which adopts the option in

(a) 3.18(1)(a) must disclose the percentage of the buffer on top of *regulatory initial margin* which is collected and the conditions for exhaustion and replenishment;

(b) 3.18(1)(b) must disclose its approach in deriving stressed observations and incorporating the observations into the calculation of *regulatory initial margin*; and

(c) 3.18(1)(c) must disclose its approach in computing the 10-year *regulatory initial margin* floor.

4.7 A CCP is not required to disclose any information under 4.3 to 4.6 that is commercially sensitive or if its disclosure would, or would be likely to, prejudice the security or integrity of the CCP.

Variation margin calls

4.8 A *CCP* must provide its *clearing members* with information regarding the *CCP*'s processes and timing for *variation margin* calls, including intraday calls, in order to facilitate *clearing members*' ability to predict and manage liquidity requirements. That information must:

Near-final

(1) clearly describe the circumstances and any related thresholds according to which the *CCP* may make *variation margin* calls;

(2) clearly explain the timing and relevant notice periods for *variation margin* calls;

(3) clearly describe the *CCP*'s processes and rules concerning the netting of payments across *margin* accounts for each type of *initial margin* call where excess collateral can be used to meet *variation margin* requirements, and any other provisions which have an impact on the amounts to be called from *clearing members*; and

(4) include granular information to help *clearing members* understand the composition of *variation margin* calls.

5 MARGIN SIMULATOR

Margin simulator availability and functionality

5.1 A *CCP* must provide its *clearing members* (on a non-binding basis) with a simulation tool which allows them to determine the amount of additional *regulatory initial margin* that the *CCP* may require upon the clearing of a new transaction.

5.2 A *CCP* must, where feasible and where requested by *clients*, prospective *clearing members*, or prospective *clients,* provide them with the simulation tool referred to in 5.1.

5.3 A *CCP* must ensure that the simulation tool referred to in 5.1:

(1) provides a forward-looking indication of future *initial margin* calls in a range of stress scenarios relevant to the *financial instruments* that the *CCP* clears, taking into account key historical market stress events for current and hypothetical portfolios;

(2) incorporates the *CCP's* material *add-on* charges that are systematically required across *clearing members*, other than *add-ons* for non-market risk at portfolio level, in addition to the *regulatory initial margin* indicated by its model; and

(3) reflects all material components of the underlying quantitative methodology for its model.

Near-final

Annex J

Default Procedures Part

In this Annex, the text is all new and is not underlined.

DEFAULT PROCEDURES

Chapter content

1. **APPLICATION**
2. **DEFAULT PROCEDURES**
3. **TESTING DEFAULT PROCEDURES**
4. **VALIDATION AND TESTING FREQUENCY**
5. **PUBLICATION OF DEFAULT PROCEDURES**

1 APPLICATION

1.1 This Part applies to a *UK CCP*.

2 DEFAULT PROCEDURES

2.1 A *CCP* must have detailed procedures to be followed by the *CCP* where a *clearing member* does not comply with the participation requirements of the *CCP* in Chapter 3 of the Conduct of Business Part within the time limit and in accordance with the procedures established by the *CCP*.

2.2 (1) A *CCP* must set out in detail the procedures to be followed in the event the default of a *clearing member* is not declared by the *CCP*.

(2) A *CCP* must review these procedures annually.

2.3 A *CCP* must take prompt action to contain losses and liquidity pressures resulting from defaults and must ensure that the closing out of any *clearing member's* positions does not disrupt its operations or expose the non-defaulting *clearing members* to losses that they cannot anticipate or control.

2.4 Where a *CCP* considers that the *clearing member* will not be able to meet its future obligations, it must promptly inform the *Bank* before the default procedure is declared or triggered.

2.5 A *CCP* must verify that its default procedures are enforceable.

2.6 A *CCP* must take all reasonable steps to ensure that it has the legal powers to liquidate the proprietary positions of the defaulting *clearing member* and to transfer or liquidate the *clients*' positions of the defaulting *clearing member*.

2.7 (1) Where assets and positions are held in an omnibus account in accordance with 5.2 of the Conduct of Business Part for the account of the *clients* of a *clearing member* that is in default:

(a) if all of the *clients* designate the same alternative *clearing member*, a *CCP* must:

(i) contractually commit itself to trigger the procedures for the transfer of those assets and positions to the *clearing member* designated by all of those *clients* and ensure it does not need the consent of the defaulting *clearing member* for the transfer; and

Near-final

(ii) transfer such assets and positions to the other *clearing member,* unless all of the *clients* object to the transfer before such transfer has concluded; and

(b) if the conditions specified in limb (a) above are not met, a *CCP* must take all reasonable steps to transfer all assets and positions held in the omnibus account to an alternative *clearing member* designated by all of the *clients*.

(2) If the transfer to that other *clearing member* has not taken place for any reason within a predefined transfer period specified in its operating rules, the *CCP* must be able to take all steps permitted by its rules to actively manage its risks in relation to those positions, including liquidating the assets and positions held by the defaulting *clearing member* for the account of its *clients*.

2.8 (1) Where assets and positions are held in an individual account in accordance with 5.3 of the Conduct of Business Part for the account of a *client* of a *clearing member* that is in default, a *CCP* must contractually commit itself to trigger the procedures for the transfer of those assets and positions to an alternative *clearing member* designated by the *client*, on the *client's* request, and ensure that it does not need the consent of the defaulting *clearing member* for the transfer.

(2) If the transfer to that other *clearing member* has not taken place for any reason within a predefined transfer period specified in its operating rules, the *CCP* must be able to take all steps permitted by its rules to actively manage its risks in relation to those positions, including liquidating the assets and positions held by the defaulting *clearing member* for the account of the *client*.

2.9 A *CCP* must not provide in its default procedures that an alternative *clearing member* is obliged to accept the transfer of a *client*'s assets and positions unless the *clearing member* has entered into a contract to do so with the relevant *client*.

2.10 A *CCP* must ensure that collateral that is recorded in the records and accounts as being held for:

(1) an individual *client* in accordance with 5.3 of the Conduct of Business Part is used exclusively to cover the positions held for that *client*; and

(2) *clients* in an omnibus account in accordance with 5.2 of the Conduct of Business Part is used exclusively to cover the positions held for those *clients*.

2.11 A *CCP* must readily return any balance owed by the *CCP* after the completion of the *clearing member's* default management process by the *CCP* to the *clients* of the defaulting *clearing member* when they are known to the *CCP* or, if they are not, to the defaulting *clearing member* for the account of its *clients*.

2.12 A *CCP* must take all reasonable steps to ensure that all *clearing members*:

(1) understand key aspects of its default procedures, including the testing of its default procedures in Chapter 3 and the validation and testing frequency in Chapter 4; and

(2) have appropriate arrangements in place to respond to a default event.

3 TESTING DEFAULT PROCEDURES

3.1 A *CCP* must regularly test and review the key aspects of its default procedures to ensure they are both practical and effective.

3.2 A *CCP* must perform simulation exercises, which must include simulation of the procedures for the transfer to an alternative *clearing member* of positions and assets held by a defaulting *clearing member* for the account of its *clients*, as part of the testing of its default procedures.

Near-final

3.3 A *CCP* must, following testing of its default procedures, identify any uncertainties and appropriately adapt its procedures to mitigate such uncertainty.

3.4 A *CCP* must, through conducting simulation exercises, verify that all *clearing members*, and where appropriate, *clients* and other relevant parties (including other *CCPs* with which the *CCP* has concluded an *interoperability arrangement* and any related service providers) are duly informed and know the procedures involved in a default scenario.

4 VALIDATION AND TESTING FREQUENCY

4.1 A *CCP* must: test and review its default procedures at least quarterly and perform simulation exercises at least annually.

4.2 A *CCP* must also perform simulation exercises following any material change to its default procedures.

5 PUBLICATION OF DEFAULT PROCEDURES

5.1 A *CCP* must make available to the public key aspects of its default procedures, including:

(1) the circumstances in which action may be taken;

(2) who may take those actions;

(3) the scope of the actions which may be taken, including the treatment of both proprietary and *client* positions, funds and assets;

(4) the mechanisms to address a *CCP's* obligations to non-defaulting *clearing members*; and

(5) the mechanisms to help address the defaulting *clearing member's* obligations to its *clients*.

Near-final

Annex K

Default Fund Part

In this Annex, the text is all new and is not underlined.

DEFAULT FUND

Chapter content

1. **APPLICATION**
2. **DEFAULT FUND**
3. **FRAMEWORK AND GOVERNANCE**
4. **IDENTIFYING EXTREME BUT PLAUSIBLE MARKET CONDITIONS**
5. **REVIEWING EXTREME BUT PLAUSIBLE SCENARIOS**

1 APPLICATION

1.1 This Part applies to a *UK CCP*.

2 DEFAULT FUND

2.1 To limit its credit exposures to its *clearing members*, a *CCP* must maintain a pre-funded fund (known as a "default fund") to cover losses that:

(1) exceed the losses to be covered by *margin* required to be held by the Margin Requirements Part; and

(2) arise from the default, including the opening of an insolvency procedure, of one or more *clearing members*.

Near-final

2.2 A *CCP* must establish a minimum amount below which the size of the *default fund* is not to fall under any circumstances.

2.3 (1) A *CCP* must establish the minimum size of contributions to the *default fund* and the criteria to calculate the contributions of each *clearing member*.

(2) A *CCP* must ensure that the contributions of each *clearing member* are proportionate to the exposures of that *clearing member*.

2.4 A *CCP* must ensure that the *default fund* at least enables the *CCP* to withstand, under extreme but plausible market conditions, the default either of:

(1) the *clearing member* to which it has the largest exposures; or

(2) the *clearing members* to which it has the second and third largest exposures, if the sum of their exposures is larger than (1).

2.5 A *CCP* must develop scenarios of extreme but plausible market conditions. The scenarios must:

(1) include the most volatile periods that have been experienced by the markets for which the *CCP* provides its services and a range of potential future scenarios; and

(2) take into account sudden sales of financial resources and rapid reductions in market liquidity.

2.6 A *CCP* may establish more than one *default fund* for the different classes of instrument that it clears.

3 FRAMEWORK AND GOVERNANCE

3.1 A *CCP* must implement an internal policy framework for defining the types of extreme but plausible market conditions that could expose it to greatest risk.

3.2 A *CCP* must use the framework in 3.1 to determine the minimum size of the *default fund* and the amount of other financial resources necessary to satisfy the requirements of Chapter 2 of this Part and Chapter 2 of the Default Waterfall Part, taking into account the *CCP's* and *clearing members' group* dependencies,

3.3 A *CCP* must ensure that the framework includes a statement describing how the *CCP* defines extreme but plausible market conditions.

3.4 A *CCP* must fully document and retain the framework in accordance with the Record Keeping Part.

3.5 A *CCP* must ensure that the framework is discussed by the risk committee and approved by the *board*.

3.6 A *CCP* must:

(1) review, at least annually, the robustness of the framework and its ability to reflect market movements; and.

(2) ensure that this review is discussed by the risk committee and reported to the *board*.

Near-final

4 IDENTIFYING EXTREME BUT PLAUSIBLE MARKET CONDITIONS

4.1 A *CCP* must ensure that the framework described in Chapter 3:

(1) reflects the risk profile of the *CCP*, taking account of cross-border and cross-currency exposures where relevant;

(2) identifies all the market risks to which the *CCP* would be exposed following the default of one or more *clearing members*, including:

(a) unfavourable movements in the market prices of cleared instruments;

(b) reduced market liquidity for these instruments; and

(c) declines in the liquidation value of collateral;

(3) reflects additional risks to the *CCP* arising from the simultaneous failure of entities in the *group* of the defaulting *clearing member*;

(4) individually identifies all the markets to which a *CCP* is exposed in a *clearing member* default scenario. For each identified market, the *CCP* must specify extreme but plausible conditions based at least on:

(a) a range of historical scenarios, including periods of extreme market movements observed over the past 30 years, or as long as reliable data have been available, that would have exposed the *CCP* to greatest financial risk. If a *CCP* decides that recurrence of a historical instance of large price movements is not plausible, it must be able to explain its omission from the framework to the *Bank*; and

(b) a range of hypothetical future scenarios, founded on consistent assumptions regarding market volatility and price correlation across markets and financial instruments, drawing on both quantitative and qualitative assessments of potential market conditions;

(5) considers, quantitatively and qualitatively, the extent to which extreme price movements could occur in multiple identified markets simultaneously; and

(6) recognises that historical price correlations may break down in extreme but plausible market conditions.

5 REVIEWING EXTREME BUT PLAUSIBLE SCENARIOS

5.1 A *CCP* must review the procedures described in Chapter 4 on a regular basis, taking into account all relevant market developments and the scale and concentration of *clearing member* exposures.

5.2 (1) A *CCP* must review the set of historical and hypothetical scenarios used by the *CCP* to identify extreme but plausible market conditions.

(2) A *CCP* must consult the risk committee as part of this review.

(3) A *CCP* must undertake this review:

(a) at least annually; and

(b) more frequently, when market developments or material changes to the set of contracts cleared by the *CCP* affect the assumptions underlying the scenarios and so require an adjustment to the scenarios.

5.3 A *CCP* must ensure that material changes to this framework are reported to the *board*.

Near-final

Annex L

Default Waterfall Part

In this Annex, the text is all new and is not underlined.

DEFAULT WATERFALL

Chapter Content

1. **APPLICATION**
2. **OWN RESOURCES**
3. **DEFAULT WATERFALL**

1 APPLICATION

1.1 This Part applies to a *UK CCP*.

2 OWN RESOURCES

2.1 A *CCP* must maintain pre-funded available financial resources that, together with *margin* and the *default fund*, are sufficient to withstand the default of at least the two *clearing members* to which it has the largest exposures under extreme but plausible market conditions, as envisaged by the scenarios developed by the *CCP* under 2.5 of the Default Fund Part.

2.2 The financial resources required to be maintained by a *CCP* must include:

(1) dedicated financial resources available to be used for the purpose set out in 3.3 at least equal to the minimum amount calculated in accordance with 2.4(1); and

(2) further dedicated financial resources available to be used for the purpose set out in 3.4 at least equal to the minimum amount as calculated in accordance with 2.4(2).

2.3 (1) A *CCP* must show its dedicated financial resources referred to in 2.2(1) and further dedicated financial resources referred to in 2.2(2) separately on its balance sheet.

(2) Where a *CCP* allocates dedicated financial resources referred to in 2.2(1) and further dedicated financial resources referred to in 2.2(2) to more than one *default fund* in accordance with 2.6 it must indicate the resources allocated to each *default fund* separately on its balance sheet.

Calculation and composition of dedicated financial resources and further dedicated financial resources

2.4 A *CCP* must calculate the minimum amount of:

(1) its dedicated financial resources referred to in 2.2(1) by multiplying the minimum *capital* required to be held in accordance with 3.1 of the Capital Part by 25%; and

(2) its further dedicated financial resources referred to in 2.2(2) by multiplying the minimum *capital* required to be held in accordance with 3.1 of the Capital Part by 10%.

2.5 A *CCP* must re-calculate the minimum amounts in 2.4 annually.

2.6 Where a *CCP* has established more than one *default fund* for the different classes of financial instruments it clears, it must allocate its total dedicated financial resources referred to in 2.2(1) and its total further dedicated financial resources referred to in 2.2(2) to each of the *default*

funds in proportion to the size of each *default fund*, and use those resources for defaults arising in relation to the class of financial instruments to which the relevant *default fund* relates.

2.7 (1) A *CCP* must use resources that qualify as *capital* and are freely available to it, to comply with the requirements under 2.1 and 2.2.

(2) The use of financial resources referred to in 2.1 and 2.2 is not limited to the purposes set out in 3.3 and 3.4.

2.8 A *CCP* may not take into account the financial resources referred to in 2.1 and 2.2 in calculating the amount of *capital* that it holds for the purposes of the Capital Part, other than for the purposes of determining whether a *CCP* meets the *notification threshold* in accordance with 3.7 of that Part.

Maintenance of the amount of dedicated financial resources and further dedicated financial resources

2.9 A *CCP* must immediately notify the *Bank* if the amount of dedicated financial resources referred to in 2.2(1) or further dedicated financial resources referred to in 2.2(2) that it holds falls below the amount required in 2.4, together with the reasons for the breach and a comprehensive description in writing of the measures and the timetable proposed for the replenishment of that amount.

2.10 Where a default of one or more *clearing members* has occurred and a subsequent default occurs before a *CCP* has replenished its dedicated financial resources referred to in 2.2(1) or further dedicated financial resources referred to in 2.2(2), only the residual amount of such resources is required to be used for the purpose of 3.3 and 3.4.

2.11 (1) A *CCP* must replenish its dedicated financial resources referred to in 2.2(1) and further dedicated financial resources referred to in 2.2(2) within one month from the notification under 2.9.

(2) A *CCP* must allocate amounts used to replenish those financial resources first to its dedicated financial resources referred to in 2.2(1) and then to its further dedicated financial resources referred to in 2.2(2).

3 DEFAULT WATERFALL

3.1 A *CCP* must use the *margin* posted by a defaulting *clearing member* to cover losses resulting from the default of that *clearing member* before using *default fund* contributions and any other financial resources referred to in 2.2.

3.2 Where the *margin* posted by a defaulting *clearing member* is not sufficient to cover the losses incurred by a *CCP* resulting from the default of the *clearing member*, a *CCP* must use the *default fund* contribution of the defaulting *clearing member* to cover those losses.

3.3 Where the *margin* posted by a defaulting *clearing member* and its *default fund* contribution are not sufficient to cover the losses incurred by the *CCP* from the default of the *clearing member*, the *CCP* must use its dedicated financial resources referred to in 2.2(1) to cover losses resulting from the default of the *clearing member* before using the *default fund* contributions of non-defaulting *clearing members*.

3.4 Where its dedicated financial resources referred to in 2.2(1), together with the *margin* posted by a defaulting *clearing member* and its *default fund* contribution, are not sufficient to cover the losses incurred by a *CCP* resulting from the default of a *clearing member*, the *CCP* must use its further dedicated financial resources referred to in 2.2(2) to cover those losses together with and in the same proportion as the *default fund* contributions of non-defaulting *clearing members*.

3.5 A *CCP* must include provision in its rules that allows it to require non-defaulting *clearing members* to provide additional funds up to a specified maximum amount in the event of a default of another *clearing member*.

3.6 A *CCP* must not use the *margin* posted by non-defaulting *clearing members* to cover the losses resulting from the default of another *clearing member*.

Near-final

Annex M

Liquidity Risk Controls Part

In this Annex, the text is all new and is not underlined.

LIQUIDITY RISK CONTROLS

Chapter content

1. **APPLICATION**
2. **LIQUIDITY RISK**
3. **LIQUIDITY RISK MANAGEMENT FRAMEWORK**
4. **ACCESS TO LIQUIDITY**
5. **CONCENTRATION RISK**
6. **STRESS TESTING LIQUID FINANCIAL RESOURCES**

1 APPLICATION

1.1 This Part applies to a *UK CCP*.

2 LIQUIDITY RISK

2.1 A *CCP* must at all times have access to adequate liquidity to perform its services and activities.

2.2 (1) A *CCP* must obtain the necessary credit lines or similar arrangements to cover its liquidity needs in case the financial resources at its disposal are not immediately available.

(2) A *CCP* must ensure that no more than 25% of the credit lines it needs are provided by:

(a) a *clearing member*; or

(b) any combination of a *clearing member* and one or more *parent undertakings* or *subsidiary undertakings* of that *clearing member*.

2.3 (1) A *CCP* must measure its potential liquidity needs daily.

(2) A *CCP* must take into account the liquidity risk generated by the default of at least the two *clearing members* to which it has the largest liquidity exposures.

2.4 A *CCP* must, for the purpose of identifying the two *clearing members* to which it has the largest liquidity exposures:

(1) assess the liquidity risk generated by the default of every combination of two *clearing members*; and

(2) select the combination of two *clearing members* that corresponds to the largest liquidity exposure calculated under this assessment.

2.5 A *CCP* must, whenever it assesses the liquidity risk generated by the default of *clearing members* under this Part:

(1) take into account multiple relationships those *clearing members* may have with the *CCP*, including any such relationships that generate a liquidity exposure for the *CCP*; and

(2) make assumptions as to the availability and the enforceability of ex-ante back-up liquidity arrangements under stressed conditions.

Near-final

3 LIQUIDITY RISK MANAGEMENT FRAMEWORK

3.1 A *CCP* must establish a robust *liquidity risk management framework*, which:

(1) includes effective operational and analytical tools to identify, measure and monitor the *CCP*'s settlement and funding flows on an ongoing and timely basis, including the *CCP's* use of intraday liquidity;

(2) is adequately robust to ensure that the *CCP* is able to effect payment and settlement obligations in all relevant currencies as they fall due, including where appropriate intraday; and

(3) includes the assessment of the *CCP's* potential future liquidity needs in each currency it clears in which the *CCP* has a material liquidity exposure, under a wide range of potential stress scenarios.

3.2 A *CCP* must ensure that the stress scenarios referred to in 3.1(3) consider all entities towards which the *CCP* has a material liquidity exposure and include:

(1) the default of *clearing members* as described in Chapter 2 from the date of a default until the end of a *liquidation period*;

(2) the liquidity risk generated by the *CCP*'s investment policy and procedures in extreme but plausible market conditions;

(3) the unavailability of the *CCP*'s liquidity providers; and

(4) the unavailability of liquidity management tools at the *CCP*'s disposal.

3.3 A *CCP* must, when conducting the assessment set out at 3.1(3), make assumptions relating to the availability and enforceability of ex-ante back-up liquidity arrangements under stressed conditions.

3.4 A *CCP* must ensure that its *liquidity risk management framework* includes a liquidity plan which is documented and retained in accordance with Chapter 2 of the Record Keeping Part. The liquidity plan must at a minimum include the *CCP*'s procedures for:

(1) managing and monitoring daily its liquidity needs across a range of market scenarios;

(2) maintaining sufficient liquid financial resources to cover its liquidity needs and distinguishing among the use of the different types of liquid financial resources;

(3) the daily assessment and valuation of the liquid assets available to the *CCP* and its liquidity needs;

(4) identifying sources of liquidity risk;

(5) assessing timescales over which the *CCP*'s liquid financial resources should be available;

(6) considering potential liquidity needs stemming from *clearing members'* ability to swap cash for non-cash collateral;

(7) the processes in the event of liquidity shortfalls; and

(8) the replenishment of any liquid financial resources it may employ during a stress event.

3.5 A *CCP* must ensure that the *board* approves the liquidity plan after consulting the risk committee.

3.6 A *CCP* must establish a daily report on the needs and resources under 3.4(1), (2) and (3) and a quarterly report on its liquidity plan under 3.4(4) to (8). The *CCP* must document and retain these reports in accordance with the Record Keeping Part.

Near-final

3.7 A *CCP* must assess the liquidity risk it faces where the *CCP* or its *clearing members* cannot settle their payment obligations when due as part of the *clearing* or settlement process. For the purposes of this assessment, the *CCP* must also take into account its investment activity.

3.8 A *CCP* must ensure that its *liquidity risk management framework* addresses the liquidity needs stemming from the *CCP*'s relationships with any entity towards which the *CCP* has a liquidity exposure including:

(1) settlement banks;

(2) payment systems;

(3) securities settlement systems;

(4) nostro agents;

(5) custodian banks;

(6) liquidity providers;

(7) *interoperable CCPs*; and

(8) service providers.

3.9 A *CCP* must take into account in its *liquidity risk management framework* any interdependencies across the entities listed in 3.8 and multiple relationships that an entity listed in 3.8 may have with the *CCP*.

3.10 A *CCP* must regularly assess the design and operation of its *liquidity risk management framework*, including considering the results of the stress tests.

4 ACCESS TO LIQUIDITY

4.1 A *CCP* must maintain, in each relevant currency, liquid financial resources commensurate with the liquidity requirements it has identified in accordance with Chapters 2 and 3. These liquid financial resources must be limited to:

(1) cash deposited at a central bank of issue;

(2) cash deposited at *credit institutions* in accordance with Chapter 5 of the Investment Policy Part;

(3) committed lines of credit or equivalent arrangements with non-defaulting *clearing members*;

(4) committed repurchase agreements; and

(5) highly liquid financial instruments which:

(a) satisfy the requirements of Chapters 3 and 4 of the Investment Policy Part; and

(b) are readily available and convertible into cash on a same-day basis using prearranged and highly reliable funding arrangements, including in stressed market conditions.

4.2 A *CCP* must have regard to the currencies in which its liabilities are denominated and must take into account the potential effect of stressed conditions on its ability to access foreign exchange markets in a manner consistent with the securities settlement cycles of foreign exchange and securities settlement systems.

4.3 A *CCP* must not double-count as liquid financial resources committed lines of credit against collateral provided by *clearing members*.

Near-final

4.4 A *CCP* must take action to monitor and control the concentration of liquidity risk exposures to individual liquidity providers.

4.5 A *CCP* must conduct rigorous due diligence that its liquidity providers have enough capacity to perform according to the liquidity arrangements.

4.6 A *CCP* must periodically test its procedures to access pre-arranged funding arrangements. This testing may include drawing down test amounts of the commercial lines of credit, to check the speed of access to the resources and reliability of procedures.

4.7 A *CCP* must ensure that its liquidity plan contains detailed procedures for using the *CCP's* liquid financial resources to fulfil its payment obligations during a liquidity shortfall. The *CCP* must ensure that these liquidity procedures:

(1) clearly state when certain resources should be used;

(2) describe:

(a) how to access cash deposits or overnight investments of cash deposits;

(b) how to execute same-day market transactions; and

(c) how to draw on pre-arranged liquidity lines; and

(3) are regularly tested.

4.8 A *CCP* must also establish an adequate plan for the renewal of funding arrangements in advance of their expiration.

5 CONCENTRATION RISK

5.1 A *CCP* must closely monitor and control the concentration of its liquidity risk exposure, including its exposures to the entities listed in 3.8 and to entities in the same *group* as those entities.

5.2 A *CCP* must ensure that its *liquidity risk management framework* includes the application of exposure and concentration limits.

5.3 A *CCP* must define processes and procedures for breaches of concentration limits.

6 STRESS TESTING LIQUID FINANCIAL RESOURCES

6.1 A *CCP* must analyse and monitor its *liquidity risk management framework* by conducting at least daily stress tests of its liquid financial resources.

6.2 A *CCP's* stress-testing programme of its liquid financial resources must ensure that those resources are sufficient in accordance with the requirements laid down in this Part.

6.3 A *CCP* must have clear and transparent rules and procedures to address situations where its stress tests highlight that its liquid financial resources are insufficient to ensure settlement of payments obligations.

6.4 A *CCP* must also have clear procedures for using the results and analysis of its stress tests to evaluate and adjust the adequacy of its *liquidity risk management framework* and liquidity providers.

6.5 A *CCP* must ensure that:

(1) the stress testing scenarios used in the stress testing of liquid financial resources consider the design and operation of the *CCP* and include all entities towards which the *CCP* has a material liquidity exposure; and

Near-final

(2) its stress tests consider any strong linkages or similar exposures between the *CCP's clearing members*, including other entities that are part of the same *group* as those *clearing members*, and assess the probability of multiple defaults and the contagion effect among its *clearing members* that such defaults may cause.

Near-final

Annex N

Collateral Part

In this Annex, the text is all new and is not underlined.

COLLATERAL

Chapter content

1. **APPLICATION**
2. **COLLATERAL REQUIREMENTS**
3. **CASH COLLATERAL**
4. **CONDITIONS APPLICABLE TO FINANCIAL INSTRUMENTS CONSIDERED AS HIGHLY LIQUID COLLATERAL**
5. **CONDITIONS APPLICABLE TO COMMERCIAL BANK GUARANTEES CONSIDERED AS HIGHLY LIQUID COLLATERAL**
6. **CONDITIONS APPLICABLE TO CENTRAL BANK GUARANTEES CONSIDERED AS HIGHLY LIQUID COLLATERAL**
7. **CONDITIONS APPLICABLE TO GOLD CONSIDERED AS HIGHLY LIQUID COLLATERAL**
8. **VALUING COLLATERAL**
9. **HAIRCUTS**
10. **CONCENTRATION LIMITS**

Near-final

1 APPLICATION

1.1 This Part applies to a *UK CCP*.

2 COLLATERAL REQUIREMENTS

2.1 (1) A *CCP* must only accept highly liquid collateral with minimal credit and market risk to cover its initial and ongoing exposure to its *clearing members* and where relevant, *CCP*s with which it has *interoperability arrangements*.

(2) A *CCP* may accept cash, financial instruments, commercial bank guarantees, central bank guarantees or gold as collateral subject to the requirements of this Part.

2.2 A *CCP* must apply an adequate haircut to the value of an asset that reflects the potential for its value to decline over the interval between its last revaluation and the time by which it can reasonably be assumed to be liquidated.

2.3 A *CCP* must determine the acceptable collateral and relevant haircuts taking into account:

(1) the liquidity risk following the default of a market participant; and

(2) the concentration risk that may result on certain assets from such determination.

2.4 A *CCP* may accept, where appropriate and sufficiently prudent, the underlying of the *derivative contract* or the financial instrument that originates the *CCP* exposure as collateral to cover its exposure.

2.5 A *CCP* must establish and implement transparent and predictable policies and procedures to assess and continuously monitor the liquidity of assets accepted as collateral and take remedial action where appropriate.

2.6 A *CCP* must:

(1) review its eligible asset policies and procedures at least annually; and

(2) conduct a review whenever a material change occurs that affects the *CCP's* risk exposure.

3 CASH COLLATERAL

3.1 For the purposes of 2.1(1), highly liquid collateral in the form of cash must be denominated in one of the following:

(1) a currency the risk of which the *CCP* is able to adequately manage; or

(2) a currency in which the *CCP* clears transactions, but limited to the amount of the collateral required to cover the *CCP's* exposures in that currency.

4 FINANCIAL INSTRUMENTS CONSIDERED AS HIGHLY LIQUID COLLATERAL

4.1 For the purposes of 2.1(1), a *CCP* may only accept a financial instrument as highly liquid collateral if it meets the conditions in paragraph 1 of the Annex to Investment Policy Part or is *transferable securities* or a *money-market instrument* and meets each of the following conditions:

(1) the financial instrument has been issued by an issuer that has low credit risk based upon an adequate internal assessment by the *CCP* employing a defined and objective methodology that:

(a) does not fully rely on external opinions; and

(b) takes into consideration the risk arising from the establishment of the issuer in a particular country;

(2) the financial instrument has a low market risk based upon an adequate internal assessment by the *CCP* employing a defined and objective methodology that does not fully rely on external opinions;

(3) it is denominated in one of the following currencies:

(a) a currency the risk of which the *CCP* is able to manage; or

(b) a currency in which the *CCP* clears contracts, in the limit of the collateral required to cover the *CCP's* exposures in that currency;

(4) it is freely transferable and without any regulatory or legal constraint or third-party claims that impair liquidation;

(5) it has an active outright sale or repurchase agreement market, with a diverse group of buyers and sellers, to which the *CCP* can demonstrate reliable access, including in stressed conditions;

(6) it has reliable price data published on a regular basis;

(7) it is not issued by:

(a) the *clearing member* providing the collateral, or an entity that is part of the same *group* as the *clearing member*, except in the case of a *covered bond* and only where the assets backing that bond are appropriately segregated within a robust legal framework and satisfy the requirements set out in this Chapter;

Near-final

(b) a *CCP* or an entity that is part of the same *group* as the *CCP*; or

(c) an entity whose business involves providing services critical to the functioning of the *CCP*, unless that entity is the *Bank* or a central bank of issue of a currency in which the *CCP* has exposures; and

(8) it is not otherwise subject to significant *wrong-way risk*.

5 COMMERCIAL BANK GUARANTEES CONSIDERED AS HIGHLY LIQUID COLLATERAL

5.1 For the purposes of 2.1(1), a *CCP* may only accept a commercial bank guarantee as highly liquid collateral if it meets the following conditions:

(1) it is issued to guarantee a *clearing member* that is a *non-financial counterparty*;

(2) it has been issued by an issuer that has low credit risk based upon an adequate internal assessment performed by the *CCP* employing a defined and objective methodology that:

(a) does not fully rely on external opinions; and

(b) takes into consideration the risk arising from the establishment of the issuer in a particular country;

(3) it is denominated in one of the following currencies:

(a) a currency the risk of which the *CCP* is able to adequately manage; or

(b) a currency in which the *CCP* clears contracts, in the limit of the collateral required to cover the *CCP's* exposures in that currency;

(4) it is irrevocable, unconditional and the issuer cannot rely on any legal or contractual exemption or defence to oppose the payment of the guarantee;

(5) it can be honoured, on demand, within the period of liquidation of the portfolio of the defaulting *clearing member* providing it without any regulatory, legal or operational constraint;

(6) it is not issued by:

(a) an entity that is part of the same *group* as the *clearing member* covered by the guarantee; or

(b) an entity whose business involves providing services critical to functioning of the *CCP*, unless that entity is the *Bank* or a central bank of issue of a currency in which the *CCP* has exposures;

(7) it is not otherwise subject to significant *wrong-way risk*;

(8) it is fully backed by collateral that meets the following conditions:

(a) it is not subject to wrong-way risk based on a correlation with the credit standing of the guarantor or the *clearing member*, unless that wrong-way risk has been adequately mitigated by haircutting of the collateral; and

(b) the *CCP* has prompt access to it and it is bankruptcy remote in case of the simultaneous default of the *clearing member* and the guarantor;

(9) the suitability of the guarantor has been ratified by the *board* of the *CCP* after a full assessment of the issuer and of the legal, contractual and operational framework of the guarantee in order to have a high level of comfort on the effectiveness of the guarantee; and

(10) the *CCP* has notified the *Bank* of the outcome of the ratification and assessment carried out under 5.1(9).

Near-final

5.2 If a *CCP* accepts a bank guarantee from *clearing member* that is a *non-financial counterparty*, it must take such guarantee into account when calculating its exposure to the bank providing the guarantee if that bank is a *clearing member*.

6 CENTRAL BANK GUARANTEES CONSIDERED AS HIGHLY LIQUID COLLATERAL

6.1 For the purposes of 2.1(1), a *CCP* may accept a bank guarantee issued by a central bank as highly liquid collateral if it meets the following conditions:

(1) it is issued by the *Bank* or a central bank of issue of a currency in which the *CCP* has exposures;

(2) it is denominated in one of the following currencies:

(a) a currency the risk of which the *CCP* is able to adequately manage;

(b) a currency in which the *CCP* clears transactions, in the limit of the collateral required to cover the *CCP's* exposures in that currency;

(3) it is irrevocable, unconditional and the issuing central bank cannot rely on any legal or contractual exemption or defence to oppose the payment of the guarantee; and

(4) it can be honoured within the period of liquidation of the portfolio of the defaulting *clearing member* providing it without any regulatory, legal or operational constraint or any third-party claim on it.

7 GOLD CONSIDERED AS HIGHLY LIQUID COLLATERAL

7.1 For the purposes of 2.1(1), a *CCP* may accept gold as highly liquid collateral if it is allocated pure gold bullion of recognised good delivery and meets one of the following conditions:

(1) the gold is directly held by the *CCP*;

(2) the gold is deposited with the *Bank* or a central bank of issue of a currency in which the *CCP* has exposures that has adequate arrangements so as to safeguard *clearing member* or *client*s' ownership rights to the gold and enable the *CCP* prompt access to the gold when required;

(3) the gold is deposited with an *authorised UK credit institution* (not including any establishment of that *credit institution* outside the *UK*) or an *overseas credit institution UK branch* that:

(a) has adequate arrangements so as to safeguard *clearing member* or *clients'* ownership rights to the gold and enable the *CCP* prompt access to the gold when required; and

(b) has a low credit risk based upon an adequate internal assessment by the *CCP* employing a defined and objective methodology that does not fully rely on external opinions; or

(4) the gold is deposited with an *authorised overseas credit institution* or a *UK credit institution overseas branch* that:

(a) is subject to and complies with prudential rules at least as stringent as those applicable to an *authorised UK credit institution;*

(b) has robust accounting practices, safekeeping procedures and internal controls;

(c) has adequate arrangements so as to safeguard *clearing member* or *client*s' ownership rights to the gold and enable the *CCP* prompt access to the gold when required; and

Near-final

(d) has a low credit risk based upon an internal assessment by the *CCP* employing a defined and objective methodology that:

(i) does not fully rely on external opinions; and

(ii) takes into consideration the risk arising from the establishment of the *authorised overseas credit institution* or the *UK credit institution overseas branch* in a particular country.

8 VALUING COLLATERAL

8.1 For the purposes of valuing highly liquid collateral, a *CCP* must establish and implement policies and procedures to monitor on a near to real time basis the credit quality, market liquidity and price volatility of each asset accepted as collateral.

8.2 A *CCP* must:

(1) monitor on a regular basis, and at least annually, the adequacy of its valuation policies and procedures, and

(2) carry out such a review whenever a material change occurs that affects the *CCP's* risk exposure.

8.3 A *CCP* must mark-to-market its collateral on a near to real time basis and, where not possible, a *CCP* must be able to manage the related risks.

9 HAIRCUTS

Near-final

9.1 A *CCP* must establish and implement policies and procedures to determine prudent haircuts to apply to collateral values.

9.2 A *CCP* must ensure haircuts recognise that collateral may need to be liquidated in stressed market conditions and take into account the time required to liquidate it.

9.3 A *CCP* must be able to demonstrate to the *Bank* that haircuts are calculated in a conservative manner to limit as far as possible procyclical effects.

9.4 For each collateral asset, the *CCP* must determine the haircut by taking into consideration relevant criteria, including:

(1) the type of asset and level of credit risk associated with the financial instrument based upon internal assessment by the *CCP*.

(2) the maturity of the asset;

(3) the historical and hypothetical future price volatility of the asset in stressed market conditions;

(4) the liquidity of the underlying market, including bid/ask spreads;

(5) the foreign exchange risk, if any; and

(6) *wrong-way risk*.

9.5 In performing the assessment for 9.4(1), a *CCP* must employ a defined and objective methodology that:

(1) does not fully rely on external opinions; and

(2) takes into consideration the risk arising from the establishment of the issuer in a particular country.

9.6 A *CCP* must monitor on a regular basis the adequacy of the haircuts.

9.7 A *CCP* must review the haircuts policies and procedures:

(1) at least annually, and

(2) whenever a material change occurs that affects the *CCP* risk exposure.

9.8 A *CCP* must avoid as far as possible disruptive or big step changes in haircuts that could introduce procyclicality.

9.9 A *CCP* must ensure its haircut policies and procedures are independently validated at least annually.

10 CONCENTRATION LIMITS

10.1 (1) A *CCP* must establish and implement policies and procedures to ensure that the collateral remains sufficiently diversified to allow its liquidation within a defined holding period without a significant market impact.

(2) A *CCP's* policies and the procedures must determine the risk mitigation measures to be applied when the concentration limits specified in 10.2 are exceeded.

10.2 A *CCP* must determine concentration limits at the level of:

(1) individual issuers;

(2) type of issuer;

(3) type of asset;

(4) each *clearing member*; and

(5) all *clearing members*.

Near-final

10.3 A *CCP* must determine concentration limits in a conservative manner taking into account all relevant criteria, including:

(1) financial instruments issued by issuers of the same type in terms of economic sector, activity, geographic region;

(2) the level of credit risk of the financial instrument or of the issuer based upon an internal assessment performed by the *CCP* employing a defined and objective methodology that:

(a) does not fully rely on external opinions; and

(b) takes into consideration the risk arising from the establishment of the issuer in a particular country; and

(3) the liquidity and the price volatility of the financial instruments.

10.4 (1) A *CCP* must ensure that no more than 10% of its collateral that is in the form of commercial bank guarantees is guaranteed by:

(a) a single *credit institution*;

(b) a single *financial institution* that is based in a country or territory other than the *UK*; or

(c) an entity that is part of the same *group* as the *credit institution* or *financial institution*.

(2) Where the collateral received by the *CCP* in the form of commercial bank guarantees is higher than 50% of the total collateral, the *CCP* may set this limit up to 25%.

10.5 (1) In calculating the limits in 10.2, a *CCP* must include the total exposure of a *CCP* to an issuer, including the cumulative amount of credit lines, certificates of deposit, time deposits, savings accounts, deposit accounts, current accounts, *money-market instruments* and reverse repurchase facilities used by the *CCP*.

(2) A *CCP* must not apply the concentration limits determined under 10.2 to collateral held by the *CCP* in excess of the minimum requirements for *margins (*including, where appropriate, *variation margin)*, *default fund* or other financial resources.

10.6 When determining the concentration limit for a *CCP's* exposure to an individual issuer, a *CCP* must aggregate and treat as a single risk its exposures to all financial instruments issued by the issuer or by a *group* entity (or explicitly guaranteed by the issuer or by a *group* entity), and to financial instruments issued by undertakings whose exclusive purpose is to own means of production that are essential for the issuer's business.

10.7 A *CCP* must monitor on a regular basis the adequacy of its concentration limit policies and procedures.

10.8 A *CCP* must:

(1) review its concentration limit policy and procedure at least annually, and

(2) review this policy whenever a material change occurs that affects the risk exposure of the *CCP*.

10.9 A *CCP* must inform the *Bank* and the *clearing members* of the applicable concentration limits and of any amendment to these limits.

10.10 If the *CCP* materially breaches a concentration limit set out in its policies and procedures, it must inform the *Bank* immediately and rectify the breach as soon as possible.

Near-final

Annex O

Investment Policy Part

In this Annex, the text is all new and is not underlined.

INVESTMENT POLICY

Chapter content

1. **APPLICATION**
2. **INVESTMENT POLICY**
3. **HIGHLY LIQUID FINANCIAL INSTRUMENTS**
4. **HIGHLY SECURED ARRANGEMENTS FOR DEPOSITING FINANCIAL INSTRUMENTS**
5. **HIGHLY SECURED ARRANGEMENTS FOR DEPOSITING CASH**
6. **CONCENTRATION LIMITS**

ANNEX - CONDITIONS APPLICABLE TO HIGHLY LIQUID FINANCIAL INSTRUMENTS

1 APPLICATION

1.1 This Part applies to a *UK CCP.*

2 INVESTMENT POLICY

2.1 A *CCP* must invest its financial resources only in cash or in highly liquid financial instruments with minimal credit and market risk, as specified in 3.1. A *CCP's* investments must be capable of being liquidated rapidly with minimal adverse price effect.

2.2 A *CCP* may only take into account amounts of *capital*, which are invested in accordance with 2.1 for the purposes of Chapters 2 and 3 of the Capital Part or Chapter 2 of the Default Waterfall Part.

2.3 (1) A *CCP* must, where it is able to do so, deposit financial instruments posted as *margin* or as *default fund* contributions or as contributions to other financial resources, whether received by the *CCP* by way of title transfer or *security financial collateral arrangement*, with an operator of a securities settlement system that ensures the full protection of those financial instruments.

(2) Alternatively, other highly secure arrangements with a *credit institution* or *financial institution* may be used, as specified in 4.1 to 4.4.

2.4 A *CCP* must deposit its cash with a *credit institution* using highly secure arrangements, as specified in 5.1 and 5.2, or, alternatively, with a central bank using its standing deposit facility or other comparable means provided for by the central bank.

2.5 Where a *CCP* deposits assets with a third party, it must ensure that:

(1) the assets belonging to the *clearing members* are identifiable separately from the assets belonging to the *CCP* and from assets belonging to that third party by means of differently titled accounts on the books of the third party or any other equivalent measures that achieve the same level of protection; and

(2) it has prompt access to the assets when required.

Near-final

2.6 A *CCP* must not invest its *capital* or the sums arising from the requirements laid down in the Margin Requirements Part, the Default Fund Part, the Liquidity Risk Controls Part or the Default Waterfall Part in its own securities or those of its *parent undertaking* or its *subsidiary undertaking*.

2.7 A *CCP* must take into account its overall credit risk exposures to individual obligors in making its investment decisions and ensure that its overall risk exposure to any individual obligor remains within acceptable concentration limits, as specified in 6.1 to 6.7.

3 HIGHLY LIQUID FINANCIAL INSTRUMENTS

3.1 For the purposes of 2.1, a *CCP* may consider financial instruments to be highly liquid with minimal credit and market risk if they are debt instruments or *derivative contracts* meeting each of the conditions set out in the Annex to this Part.

4 HIGHLY SECURED ARRANGEMENTS FOR DEPOSITING FINANCIAL INSTRUMENTS

4.1 If a *CCP* is unable to deposit the financial instruments referred to in 2.3 with the operator of a securities settlement system that ensures the full protection of those instruments, then it must deposit those financial instruments with any of the following:

(1) a central bank that ensures the full protection of those instruments and that enables the *CCP* prompt access to the financial instruments when required;

(2) an *authorised UK credit institution* (not including any establishment of that *credit institution* outside the *UK*) or an *overseas credit institution UK branch* that the *CCP* can demonstrate, based upon an internal assessment by the *CCP*:

(a) ensures the full segregation and protection of those financial instruments;

(b) enables the *CCP* to have prompt access to the financial instruments when required; and

(c) has low credit risk;

(3) an *authorised overseas credit institution,* a *UK credit institution overseas branch* or an *authorised overseas financial institution* that the *CCP* can demonstrate, based upon an internal assessment by the *CCP*:

(a) has robust accounting practices, safekeeping procedures and internal controls;

(b) ensures the full segregation and protection of those financial instruments;

(c) enables the *CCP* prompt access to the financial instruments when required; and

(d) has low credit risk; and

(4) (a) (in the case of allowances created under article 18 of the Greenhouse Gas Emissions Trading Scheme Order) the UK Emissions Trading Registry; or

(b) (in the case of emission allowances consisting of units recognised as compliant with the requirements of Directive 2003/87/EC (Emissions Trading Scheme)) the Union Registry for the EU Emission Trading System.

4.2 In performing the assessment in 4.1(2) or (3), a *CCP* must employ a defined and objective methodology that does not fully rely on external opinions and, in relation to an *authorised overseas credit institution, a UK credit institution overseas branch* and an *authorised overseas financial institution*, takes into consideration the risk arising from the establishment of the *authorised overseas credit institution, the UK credit institution overseas branch* or *authorised overseas financial institution* in a particular country or territory.

Near-final

4.3 Where a *CCP* deposits financial instruments in accordance with 4.1(2) or 4.1(3), it must hold them under an arrangement that prevents any losses to the *CCP* due to the default or insolvency of the *authorised UK credit institution, authorised overseas credit institution* or *authorised overseas financial institution*.

4.4 A *CCP* may only re-use financial instruments received by way of *security financial collateral arrangement* or an *equivalent collateral arrangement* and posted as *margin*, *default fund* contributions or contributions to other financial resources where:

(1) the conditions in 5.7 and 5.8 of the Conduct of Business Part are met; and

(2) the purpose of the reuse is

(a) to fulfil its payment obligations as they fall due;

(b) to invest in assets in accordance with this Part;

(c) to provide collateral in favour of third parties with which it is permitted to deposit cash or financial instruments, make investments or enter into repurchase transactions in accordance with the *FMI Rulebook;*

(d) to settle *margin* and delivery obligations owed to a *clearing member;*

(e) to manage the default of a *clearing member;* or

(f) in connection with the execution of an *interoperable arrangement.*

5 HIGHLY SECURED ARRANGEMENTS FOR DEPOSITING CASH

5.1 For the purposes of 2.4, where cash is deposited other than with a central bank, a *CCP* must ensure that the deposit meets each of the following conditions:

(1) the deposit is in one of the following currencies:

(a) a currency the risks of which the *CCP* can demonstrate with a high level of confidence that it is able to manage; or

(b) a currency in which the *CCP* clears transactions, up to the limit of the collateral received in that currency; and

(2) the deposit is placed with one of the following:

(a) an *authorised UK credit institution* (not including any establishment of that *credit institution* outside the *UK*) or an *overseas credit institution UK branch* that the *CCP* can demonstrate has a low credit risk based upon an internal assessment by the *CCP*; or

(b) an *authorised overseas credit institution* or a *UK credit institution overseas branch* that the *CCP* can demonstrate, based upon an internal assessment by the *CCP:*

(i) has robust accounting practices and internal controls; and

(ii) has low credit risk.

5.2 In performing the assessment in 5.1(2), a *CCP* must employ a defined and objective methodology that does not fully rely on external opinions and, in relation to an *authorised overseas credit institution* and a *UK credit institution overseas branch*, takes into consideration the risk arising from the establishment of the a*uthorised overseas credit institution* and the *UK credit institution overseas branch* in a particular country or territory.

5.3 Where cash is maintained overnight in accordance with 5.1, the *CCP* must ensure that not less than 95% of such cash, calculated over an average period of one month, is deposited through arrangements that ensure the collateralisation of the cash with highly liquid financial

Near-final

instruments meeting the requirements set out in the Annex to this Part, except the requirement at 1(3) of the Annex.

6 CONCENTRATION LIMITS

6.1 A *CCP* must establish and implement policies and procedures to ensure that the financial instruments in which its financial resources are invested remain sufficiently diversified.

6.2 A *CCP* must determine concentration limits and monitor the concentration of its financial resources at the level of:

(1) individual financial instruments;

(2) types of financial instruments;

(3) individual issuers;

(4) types of issuers; and

(5) counterparties with which arrangements as provided for in 4.1(2) and 4.1(3) or 5.1(2) are established.

6.3 When considering types of issuers a *CCP* must take into account the following:

(1) geographic distribution;

(2) interdependencies and multiple relationships that an entity may have with a *CCP*;

(3) the level of credit risk; and

(4) exposures the *CCP* may have to the issuer through products cleared by the *CCP*.

6.4 A *CCP* must ensure that its concentration limit policies and procedures detail the risk mitigation measures that are to be applied when the concentration limits are exceeded.

6.5 When determining the concentration limit for a *CCP*'s exposure to an individual issuer or *credit institution* or *financial institution*, a *CCP* must aggregate and treat as a single risk its exposure to all financial instruments issued by, or explicitly guaranteed by, the issuer and all financial resources deposited with the *credit institution* or *financial institution*.

6.6 (1) A *CCP* must monitor on a regular basis the adequacy of its concentration limit policies and procedures.

(2) In addition, a *CCP* must review its concentration limit policies and procedures at least annually and whenever a material change occurs that affects the risk exposure of the *CCP*.

6.7 If the *CCP* breaches a concentration limit set out in its policies and procedures, it must inform the *Bank* immediately and rectify the breach as soon as possible.

Near-final

ANNEX - CONDITIONS APPLICABLE TO HIGHLY LIQUID FINANCIAL INSTRUMENTS

1 For the purposes of 2.1, 3.1 and 5.3, a *CCP* may consider financial instruments to be highly liquid financial instruments, with minimal credit and market risk if they are debt instruments meeting each of the following conditions:

(1) they are issued or explicitly guaranteed by:

(a) a government;

(b) a central bank:

(c) a multilateral development bank as listed under Article 117(2) of the Credit Risk: Standardised Approach Part of the *PRA Rulebook*;

(d) the European Financial Stability Facility or the European Stability Mechanism where applicable;

(2) the *CCP* can demonstrate that they have low credit and market risk based upon an internal assessment by the *CCP*.

(3) the average time-to-maturity of the *CCP*'s portfolio does not exceed two years;

(4) they are denominated in one of the following currencies:

(a) a currency the risks of which the *CCP* can demonstrate that it is able to manage; or

(b) a currency in which the *CCP* clears transactions, up to the limit of the collateral received in that currency;

(5) they are freely transferable and without any regulatory constraint or third-party claims that impair liquidation;

(6) they have an active outright sale or repurchase agreement market, with a diverse group of buyers and sellers, including in stressed conditions and to which the *CCP* has reliable access; and

(7) reliable price data on the instruments are published on a regular basis.

Near-final

2 In performing the assessment in paragraph 1(2) of this Annex, the *CCP* must employ a defined and objective methodology that does not fully rely on external opinions and that takes into consideration the risk arising from the establishment of the issuer in a particular country or territory.

3 For the purposes of 2.1, 3.1 and 5.3, a *CCP* may consider *derivative contracts* to be highly liquid financial instruments with minimal credit and market risk if they are entered into for the purpose of:

(1) hedging the portfolio of a defaulted clearing member as part of the *CCP*'s default management procedure; or

(2) hedging currency risk arising from its liquidity management framework established in accordance with the Liquidity Risk Controls Part.

Where *derivative contracts* are used in such circumstances, a *CCP* must limit their use to *derivative contracts* in respect of which reliable price data is published on a regular basis and to the period of time necessary to reduce the credit and market risk to which the *CCP* is exposed.

A *CCP*'s policy for the use of *derivative contracts* must be approved by the *board* after having consulted the risk committee.

Annex P

Review and Testing of Models and Parameters Part

In this Annex, the text is all new and is not underlined.

REVIEW AND TESTING OF MODELS AND PARAMETERS

Chapter content

1. **APPLICATION**
2. **REVIEW, STRESS TESTING AND BACK TESTING**
3. **MODEL VALIDATION**
4. **TESTING PROGRAMMES**
5. **BACK TESTING PROCEDURE**
6. **SENSITIVITY TESTING AND ANALYSIS**
7. **STRESS TESTING**
8. **RISK FACTORS TO STRESS TEST**
9. **STRESS TESTING TOTAL FINANCIAL RESOURCES**
10. **COVERAGE AND USE OF TEST RESULTS**
11. **REVERSE STRESS TESTS**
12. **VALIDATION, TESTING FREQUENCY AND TIME HORIZONS**
13. **CHANGES TO MODELS AND PARAMETERS**
14. **INFORMATION TO BE PUBLICALLY DISCLOSED**

Near-final

1 APPLICATION

1.1 This Part applies to a *UK CCP*.

2 REVIEW, STRESS TESTING AND BACK TESTING

2.1 A *CCP* must regularly review the models and parameters adopted to calculate its *margin*, *default fund* contributions, collateral requirements and other risk control mechanisms.

2.2 (1) A *CCP* must subject the models referred to in 2.1 to rigorous and frequent stress tests to assess their resilience in extreme but plausible market conditions.

(2) A *CCP* must perform back tests to assess the reliability of the methodology adopted.

2.3 In accordance with 2.1, a *CCP* must conduct a comprehensive validation in accordance with Chapter 3 of its models, their methodologies and the *liquidity risk management framework* used to quantify, aggregate and manage its risks.

2.4 A *CCP* must obtain independent validation of the stress tests referred to at 2.2 and inform the *Bank* of the results of those tests.

3 MODEL VALIDATION

3.1 A *CCP* must document its validation process, which must specify at least the policies used to test the *CCP's regulatory initial margin*, *default fund* and other financial resources methodologies and framework for calculating liquid financial resources.

3.2 A *CCP* must ensure that any material revisions or adjustments to the policies referred to in 3.1 are subject to appropriate governance, including seeking advice from the risk committee, and validated by a qualified and independent party prior to application.

3.3 The validation referred to in 3.1 above must, at least, include the following:

(1) an evaluation of the conceptual soundness of the models and framework, including the developmental supporting evidence;

(2) a review of the ongoing monitoring procedures, including verification of processes and benchmarking;

(3) a review of the parameters and assumptions made in the development of its models, their methodologies and framework;

(4) a review of the adequacy and appropriateness of the models, their methodologies and framework adopted in respect of the type of contracts they apply to;

(5) a review of the appropriateness of its stress testing scenarios in accordance with the Default Fund Part and Chapter 8; and

(6) an analysis of the outcomes of testing results.

3.4 A *CCP* must:

(1) establish the criteria against which it assesses whether its models, their methodologies and *liquidity risk management framework* can be successfully validated; and

(2) include successful testing results in the criteria referred to in paragraph (1).

3.5 A *CCP* must:

(1) have its valuation models validated under a variety of market scenarios by a qualified and independent party to ensure that its models accurately produce appropriate prices; and

(2) where appropriate, adjust its calculation of *regulatory initial margin* to reflect any identified model risk.

3.6 Where pricing data is not readily available or reliable, a *CCP* must address such pricing limitations and, at least, adopt conservative assumptions based on observed correlated or related markets and current behaviours of the market. The systems and valuation models used for this purpose must be subject to appropriate governance, including seeking advice from the risk committee, and validation and testing.

3.7 A *CCP* must regularly conduct an assessment of the theoretical and empirical properties of its model for *regulatory initial margin* for all the financial instruments that it clears.

4 TESTING PROGRAMMES

4.1 A *CCP* must have in place policies and procedures that detail the stress and back testing programmes it undertakes pursuant to 2.2 to assess the appropriateness, accuracy, reliability and resilience of the models and their methodologies used to calculate its risk control mechanisms including *regulatory initial margin*, *default fund* contributions, and other *financial resources* in a wide range of market conditions.

Near-final

4.2 A *CCP's* policies and procedures must detail the stress testing programme it undertakes to assess the appropriateness, accuracy, reliability and resilience of the *liquidity risk management framework*.

4.3 A *CCP* must ensure that the policies and procedures referred to in 4.1 and 4.2 include methodologies for the inclusion of the selection and development of appropriate testing, including:

(1) portfolio and market data selection;

(2) the regularity of the tests;

(3) the specific risk characteristics of the financial instruments cleared;

(4) the analysis of testing results; and

(5) exceptions and the relevant corrective measures needed.

4.4 A *CCP* must include any *client* positions when performing all tests.

5 BACK TESTING PROCEDURE

5.1 A *CCP* must assess its *margin coverage* by performing an ex-post comparison of observed outcomes with expected outcomes derived from the use of models for *regulatory initial margin*.

5.2 A *CCP* must ensure that the back testing analysis required in 5.1 is performed each day in order to evaluate whether there are any *testing exceptions* to *margin coverage*.

5.3 (1) A *CCP* must evaluate coverage on current positions for:

(a) financial instruments; and

(b) *clearing members;*

(2) A *CCP* must take into account possible effects from collecting margin at a portfolio level, as opposed to a product level and, where appropriate, *interoperable CCPs* when evaluating coverage on current positions.

Near-final

5.4 A *CCP* must consider the appropriate historical time horizons for its back testing programme as required in 5.1 to ensure that the observation window used is sufficient to mitigate any detrimental effect on the statistical significance.

5.5 In the ex-post comparison referred to in 5.1, a CCP must at a minimum consider clear statistical tests and performance criteria to be defined by the *CCP* for the assessment of back testing results.

5.6 A *CCP* must periodically report its back testing results and analysis in a form that does not breach confidentiality to the risk committee in order to seek their advice in the review of its model for *regulatory initial margin*.

5.7 (1) A *CCP* must ensure that the back testing results and analysis is made available to all *clearing members* and, where known to the *CCP*, *clients*.

(2) A *CCP* must aggregate such information in a form that does not breach confidentiality and *clearing members* and *clients* must only have access to detailed back testing results and analysis for their own portfolios.

5.8 A *CCP* must define the procedures to detail the actions it could take given the results of back testing analysis.

5.9 A *CCP* must include in the historical time horizon used for back tests data from at least the last year (or for as long as a *CCP* has been *clearing* the relevant financial instrument if that is less than a year).

6 SENSITIVITY TESTING AND ANALYSIS

6.1 A *CCP* must conduct sensitivity tests and analysis to assess the coverage of its model for *regulatory initial margin* under various market conditions using historical data from realised stressed market conditions and hypothetical data for unrealised stressed market conditions.

6.2 For the purposes of 6.1, a *CCP* must use a wide range of parameters and assumptions to capture a variety of historical and hypothetical conditions including the most-volatile periods that have been experienced by the markets it serves and extreme changes in the correlations between prices of contracts cleared by the *CCP*, in order to understand how the level of *margin coverage* might be affected by highly stressed market conditions and changes in important model parameters.

6.3 In respect of the sensitivity tests required in 6.1, a *CCP* must ensure that:

(1) sensitivity analysis is performed on a number of actual and representative *clearing member* portfolios where the representative portfolio is chosen based on its sensitivity to the material risk factors and correlations to which the *CCP* is exposed;

(2) the sensitivity testing and analysis is designed to test the key parameters and assumptions of the model for *regulatory initial margin* at a number of *confidence intervals* to determine the sensitivity of the system to errors in the calibration of such parameters and assumptions; and

(3) appropriate considerations are given to the term structure of the risk factors, and the assumed correlation between risk factors.

6.4 A *CCP* must evaluate the potential losses in *clearing member* positions.

6.5 A *CCP* must, where applicable, consider:

(1) parameters reflective of the simultaneous default of *clearing members* that issue financial instruments cleared by the *CCP* or the underlying *derivatives* cleared by the *CCP*; and

(2) the effects of a *client's* default that issues financial instruments cleared by the *CCP* or the underlying of *derivatives* cleared by the CCP.

Near-final

6.6 A *CCP* must periodically report its sensitivity testing results and analysis in a form that does not breach confidentiality to the risk committee in order to seek its advice in the review of its model for *regulatory initial margin*.

6.7 A *CCP* must define the procedures to detail the actions it could take given the results of sensitivity testing analysis.

7 STRESS TESTING

7.1 A *CCP* must ensure that its stress tests apply stressed parameters, assumptions and scenarios to the models used by the *CCP* for the estimation of risk exposures so that the *CCP's* financial resources are sufficient to cover those exposures under the extreme but plausible market conditions identified under Chapter 4 of the Default Fund Part.

7.2 (1) A *CCP* must ensure that its stress testing programme requires it to conduct a range of stress tests on a regular basis.

(2) A *CCP* must ensure that these stress tests consider:

(a) the *CCP's* product mix;

(b) all elements of the *CCP's* models and their methodologies; and

(c) the *CCP's liquidity risk management framework*.

7.3 (1) A *CCP* must ensure that its stress testing programme prescribes that stress tests are performed, using defined stress testing scenarios, on both historical and hypothetical extreme but plausible market conditions in accordance with the Default Fund Part.

(2) A *CCP* must review and, where appropriate, adjust the historical conditions used.

7.4 A *CCP* must also consider other forms of appropriate stress testing scenarios including, but not limited to, the technical or financial failure of its settlement banks, nostro agents, custodian banks, liquidity providers or *interoperable CCPs*.

7.5 A *CCP* must have the capacity to adapt its stress tests quickly to incorporate new or emerging risks.

7.6 A *CCP* must consider the potential losses arising from the default of a *client*, where known, which clears through multiple *clearing members*.

7.7 (1) A *CCP* must periodically report to the risk committee its stress testing results and analysis in a form that does not breach confidentiality.

(2) A *CCP* must seek the risk committee's advice in the review of its models, its methodologies and its liquidity risk management framework.

7.8 (1) A *CCP* must make stress testing results and analysis available to all *clearing members* and, where known to the *CCP*, *clients*.

(2) The *CCP* must ensure that:

(a) this information is aggregated in a form that does not breach confidentiality; and

(b) these *clearing members* and *clients* only have access to detailed stress testing results and analysis for their own portfolios.

7.9 A *CCP* must define the procedures to detail the actions it could take given the results of stress testing analysis.

7.10 A *CCP* must define the time horizons used for stress tests in accordance with the Default Fund Part and must include forward-looking extreme but plausible market conditions in those time horizons.

Near-final

8 RISK FACTORS TO STRESS TEST

8.1 A *CCP* must identify, and have an appropriate method for measuring, relevant risk factors specific to the contracts it clears that could affect its losses.

8.2 Where a *CCP* clears interest rate related contracts it must:

(1) ensure that its stress tests at least take into account risk factors corresponding to interest rates in each currency in which the *CCP* clears financial instruments*;*

(2) divide the yield curve modelling into various maturity segments in order to capture variations in the volatility rates along the yield curve;

(3) ensure that the number of related risk factors taken into account is proportionate to the complexity of the interest rate contracts it clears; and

(4) separately capture *basis risk* which arises from less than perfectly correlated movements between government and other fixed-income interest rates.

8.3 Where a *CCP* clears exchange risk related contracts it must ensure that its stress tests at least take into account risk factors corresponding to:

(1) each foreign currency in which the *CCP* clears financial instruments; and

(2) the exchange rate between the currency in which *margin* calls are made and the currency in which the *CCP* clears financial instruments.

8.4 Where a *CCP* clears equity related contracts it must ensure that:

(1) its stress tests at least take into account risk factors corresponding to the volatility of individual equity issues for each of the markets cleared by the *CCP* and to the volatility of various sectors of the overall equity market; and

(2) the sophistication and nature of its modelling technique for a given market corresponds to the *CCP's* exposure to the overall market as well as its concentration in individual equity issues in that market.

8.5 Where a *CCP* clears commodity contracts it must ensure that its stress tests at least take into account risk factors that consider the different categories and sub-categories of commodity contracts and related *derivatives* cleared by the *CCP*, including, where appropriate, variations in the *convenience yield* between *derivatives* positions and cash positions in the commodity.

8.6 Where a *CCP* clears credit related contracts it must ensure that its stress tests at least take into account risk factors that consider:

(1) *jump to default risk*, including the cumulative risk arising from multiple defaults;

(2) *basis risk*; and

(3) recovery rate volatility.

8.7 In its stress tests, a *CCP* must also give appropriate consideration at least to the following:

(1) correlations, including those between identified risk factors and similar contracts cleared by the *CCP*;

(2) factors corresponding to the implied and historical volatility of the contract being cleared;

(3) specific characteristics of any new contracts to be cleared by the *CCP*;

(4) concentration risk, including to a *clearing member* and *group* entities of *clearing members*;

(5) interdependencies and multiple relationships;

(6) relevant risks including foreign exchange risk;

(7) set exposure limits; and

(8) *wrong-way risk*.

Near final

9 STRESS TESTING TOTAL FINANCIAL RESOURCES

9.1 A *CCP's* stress-testing programme must ensure that its combination of *margin*, *default fund* contributions and other financial resources are sufficient to cover the default of at least the two *clearing members* to which it has the largest exposures under extreme but plausible market conditions.

9.2 A *CCP* must ensure that the stress-testing programme examines potential losses resulting from the default of entities in the same *group* as the two *clearing members* to which it has the largest exposures under extreme but plausible market conditions.

9.3 A *CCP's* stress-testing programme must ensure that its *margin* and *default fund* are sufficient to cover at least the default either:

(1) of the *clearing member* to which it has the largest exposures; or

(2) of the *clearing members* to which it has the second and third largest exposures, if the sum of their exposures is larger in accordance with Chapter 2 of the Default Fund Part.

9.4 A *CCP* must conduct a thorough analysis of the potential losses it could suffer and must evaluate the potential losses in *clearing member* positions, including the risk that liquidating such positions could have an impact on the market and the CCP's level of *margin coverage*.

9.5 A *CCP* must, where applicable, consider in its stress tests the effects of the default of a *clearing member* that issues:

(1) financial instruments cleared by the *CCP*; or

(2) the underlying of *derivatives* cleared by the *CCP*.

9.6 A *CCP* must, where applicable, also consider in its stress tests the effects of the default of a *client* that issues:

(1) financial instruments cleared by the *CCP*; or

(2) the underlying of *derivatives* cleared by the *CCP*.

9.7 A *CCP's* stress tests must consider the *liquidation period* provided for in 3.13 to 3.16 of the Margin Requirements Part.

10 COVERAGE AND USE OF TEST RESULTS

10.1 A *CCP* must establish and maintain procedures to recognise changes in market conditions, including increases in volatility or reductions in the liquidity of the financial instruments it clears, so as to promptly adapt calculation of *regulatory initial margin* to appropriately account for new market conditions.

10.2 A *CCP* must conduct tests on its haircuts to ensure that *collateral* can be liquidated at least at its haircut value in observed and extreme but plausible market conditions.

10.3 When a *CCP* collects *margin* at a portfolio level, as opposed to a product level, it must continuously review and test offsets among products.

10.4 A *CCP* must base such offsets as referred to in 10.3 on prudent and economically meaningful methodology that reflects the degree of price dependence between the products.

10.5 A CCP must test how correlations perform during periods of actual and hypothetical severe market conditions.

10.6 A *CCP* must recalibrate its *regulatory initial margin* where back testing indicates that the model did not perform as expected with the result that it does not identify the appropriate amount of *regulatory initial margin* necessary to achieve the intended level of confidence.

10.7 (1) A *CCP* must evaluate the source of *testing exceptions* highlighted by its back tests as required in 2.2 and 5.1.

(2) Depending on the source of exceptions, a *CCP* must determine whether a fundamental change to the *regulatory initial margin*, or to the models that input into it, is required and whether the recalibration of current parameters is necessary.

10.8 (1) A *CCP* must evaluate the sources of *testing exceptions* highlighted by its stress tests as required in 2.2 and Chapter 7.

(2) A *CCP* must determine whether a fundamental change to its models, their methodologies or its *liquidity risk management framework* is required or if the recalibration of current parameters or assumptions is necessary, on the basis of the sources of exceptions.

10.9 (1) Where the results of the tests show an insufficient coverage of *regulatory initial margin*, *default fund* or other financial resources, a *CCP* must increase overall coverage of its financial resources to an acceptable level by the next *margin* call.

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(2) Where the results of the tests show insufficient liquid financial resources, a *CCP* must increase its liquid financial resources to an acceptable level as soon as is practicable.

10.10 A *CCP* must, in reviewing its models, their methodologies and the *liquidity risk management framework*, monitor the frequency of recurring *testing exceptions* to identify and resolve issues appropriately and without undue delay.

11 REVERSE STRESS TESTS

11.1 A *CCP* must conduct reverse stress tests which are designed to identify under which market conditions:

(1) the combination of its *regulatory initial margin*, *default fund* and other financial resources may provide insufficient coverage of credit exposures; and

(2) its liquid financial resources may be insufficient.

11.2 When conducting the tests required by 11.1, a *CCP* must model extreme market conditions that go beyond what are considered plausible market conditions, in order to help determine the limits of its models, its *liquidity risk management framework*, its financial resources and its liquid financial resources.

11.3 A *CCP* must develop reverse stress tests tailored to the specific risks of the markets and of the contracts that it provides *clearing* services for.

11.4 A *CCP* must use the conditions identified in 11.2 and the results and analysis of its reverse stress tests to help in identifying extreme but plausible scenarios in accordance with the Default Fund Part.

11.5 A *CCP* must periodically report its reverse stress testing results and analysis in a form that does not breach confidentiality to the risk committee and seek their advice in its review.

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12 VALIDATION, TESTING FREQUENCEY AND TIME HORIZONS USED

12.1 A *CCP* must conduct a comprehensive validation of its models and their methodologies outlined in this Part at least annually.

12.2 A *CCP* must conduct a comprehensive validation of its *liquidity risk management framework* at least annually.

12.3 (1) A *CCP* must conduct a full validation of its valuation models at least annually.

(2) A *CCP* must review the appropriateness of the policies specified in Chapter 7 above at least annually.

12.4 A *CCP* must analyse and monitor its model performance and financial resources coverage in the event of defaults by back testing *margin coverage* at least daily and conducting at least daily stress testing using standard and predetermined parameters and assumptions.

12.5 A *CCP* must conduct a detailed and thorough analysis of testing results at least monthly in order to ensure its stress testing scenarios, models and *liquidity risk management framework*, underlying parameters and assumptions are correct.

12.6 A *CCP* must ensure that the analysis required in 12.5 is conducted more frequently in stressed market conditions, including when the financial instruments cleared or markets served in general display high volatility, become less liquid, or when the size or concentrations of positions held by its *clearing members* increase significantly or when it is anticipated that a *CCP* will encounter stressed market conditions.

12.7 (1) A *CCP* must ensure that the sensitivity analysis referred to in Chapter 6 above is conducted at least monthly, using the results of sensitivity tests.

(2) A *CCP* must conduct this analysis more frequently when markets are unusually volatile or less liquid or when the size or concentrations of position held by its *clearing members* increase significantly.

12.8 A *CCP* must test offsets among financial instruments and how correlations perform during periods of actual and hypothetical severe market conditions at least annually.

12.9 A *CCP's* haircuts must be tested at least monthly.

12.10 A *CCP* must conduct reverse stress tests at least quarterly.

13 CHANGES TO MODELS AND PARAMETERS AND OVERRIDES

13.1 A *CCP* must:

(1) notify the *Bank* in advance of any changes that it proposes to make to the models and parameters referred to at 2.1 beyond the regular intended operation of such models and parameters; and

(2) include in that notification an assessment of the materiality of the proposed change.

13.2 A proposed change to a model or parameter is a material change for the purposes of this Chapter where the *Bank* has notified the *CCP* that it has determined the change to be material in accordance with [section 296B(2)] of *FSMA*.

13.3 A *CCP* must not make a change assessed by it as non-material under 13.1(2) unless the *Bank* has first confirmed to the *CCP* in accordance with [section 296B(2)] of *FSMA* that it agrees with the assessment notified to it.

13.4 A *CCP* must not make a material change to a model or parameter unless the *CCP* has first been given a *section 138BA permission* by the *Bank* to make that change.

13.5 A *CCP* must ensure that any material change to the models and parameters referred to at 2.1, and any material revisions or adjustments to the *liquidity risk management framework* are subject to appropriate governance, including seeking advice from the risk committee, and validated by a qualified and independent party prior to implementation.

13.6 A *margin model override* which complies with 3.29 of the Margin Requirements Part or a *non-margin model override* which complies with 13.8 of this Part is not a change to a *CCP's* models and parameters, requiring notification in accordance with 13.1.

13.7 A *CCP* must notify the *Bank* as soon as is practicable and in any event within one *business day* of the occurrence of an *override*.

13.8 A *non-margin model override*:

(1) must be to:

(a) avert a serious financial stability risk; or

(b) prevent the *CCP* from breaching any regulatory requirement or any applicable law of the *UK* (or any part of it) or any other jurisdiction;

(2) must be temporary; and

(3) may apply to all *clearing members* or only to a subset of *clearing members* depending on the characteristics of the financial instruments that they clear with the *CCP*.

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13.9 Where a *CCP* makes use of a *non-margin model override*, it must disclose to the *Bank* how long it made use of the *non-margin model override* and support the disclosure by providing a qualitative explanation of the reasons for the *non-margin model override*.

14 INFORMATION TO BE PUBLICLY DISCLOSED

14.1 A *CCP* must publicly disclose the general principles underlying its models and their methodologies, the nature of tests performed, with a high-level summary of the test results and any corrective actions undertaken.

14.2 A *CCP* must publicly disclose key information on the risk-management model and assumptions adopted to perform the stress tests referred to in 2.2.

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Annex Q

Settlement Part

In this Annex, the text is all new and is not underlined.

SETTLEMENT

Chapter content

1. **APPLICATION**
2. **SETTLEMENT**

1 APPLICATION

1.1 This Part applies to a *UK CCP*.

2 SETTLEMENT

2.1 A *CCP* must, where practical and available, use central bank money to settle its transactions. Where central bank money is not used, the *CCP* must take appropriate steps to strictly limit cash settlement risks.

2.2 A *CCP* must clearly state its obligations with respect to deliveries of financial instruments, including whether it has an obligation to make or receive delivery of a financial instrument or whether it indemnifies participants for losses incurred in the delivery process.

2.3 Where a *CCP* has an obligation to make or receive deliveries of financial instruments, it must eliminate principal risk through the use of delivery versus payment mechanisms to the extent possible.

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Annex R

Capital Calculations and Reporting Part

In this Annex, the text is all new and is not underlined.

CAPITAL CALCULATIONS AND REPORTING

Chapter content

1. APPLICATION
2. CALCULATION OF KCCP
3. GENERAL RULES FOR THE CALCULATION OF KCCP
4. FREQUENCY AND DATES OF THE CALCULATION
5. REPORTING OF INFORMATION
6. CALCULATION OF SPECIFIC ITEMS TO BE REPORTED BY THE CCP

ANNEX I - INFORMATION RELATED TO HYPOTHETICAL CAPITAL

ANNEX II - INSTRUCTIONS FOR REPORTING INFORMATION RELATED TO HYPOTHETICAL CAPITAL

1 APPLICATION

1.1 This Part applies to a *UK CCP*.

2 CALCULATION OF KCCP

2.1 For the purposes of Article 308 of Chapter 3 of the Counterparty Credit Risk (CRR) Part of the *PRA Rulebook* and Chapter 10 of the Prudential Sourcebook for MiFID Investment Firms (MIFIDPRU) in the *FCA Handbook*, a *CCP* must calculate K_{CCP} as required in 2.2 for all contracts and transactions it clears for all its *clearing members* falling within the coverage of the given *default fund*.

2.2 A *CCP* must calculate the hypothetical capital as follows:

$$K_{CCP} = \sum_{i} EAD_i \cdot RW \cdot \text{capital ratio}$$

where:

K_{CCP} = the hypothetical capital;

i = the index denoting the *clearing member*;

EAD_i = the exposure amount of the *CCP* to *clearing member* i, including the *clearing member's* own transactions with the *CCP*, the *client* transactions guaranteed by the *clearing member*, and all values of collateral held by the *CCP*, including the *clearing member's* pre-funded default fund contribution, against those transactions, relating to the valuation at the end of the regulatory reporting date before the *margin* called on the final *margin* call of that day is exchanged;

RW = a risk weight of 20%; and

capital ratio = 8%.

3 GENERAL RULES FOR THE CALCULATION OF KCCP

3.1 For the purpose of calculating K_{CCP}, a *CCP* must apply the following provisions:

(1) a *CCP* must calculate the value of the exposures it has to its *clearing members* as follows:

(a) for exposures arising from contracts and transactions listed in points (a) or (c) of Article 301(1) of Chapter 3 of the Counterparty Credit Risk (CRR) Part of the *PRA Rulebook*, the *CCP* must calculate the value in accordance with the method set out in Section 3 of Chapter 3 of the Counterparty Credit Risk (CRR) Part of the *PRA Rulebook* by using a margin period of risk of 10 *business days*;

(b) for exposures arising from contracts and transactions listed in point (b) of Article 301(1) of Chapter 3 of the Counterparty Credit Risk (CRR) Part of the *PRA Rulebook*, the *CCP* must calculate the value (EAD_i) in accordance with the following formula:

$EAD_i = \max \{EBRM_i - IM_i - DF_i; 0\}$

where:

EAD_i = the exposure value;

i = the index denoting the *clearing member*;

$EBRM_i$ = the exposure value before risk mitigation that is equal to the exposure value of the *CCP* to *clearing member* i arising from all the contracts and transactions with that *clearing member*, calculated without taking into account the collateral posted by that *clearing member*;

IM_i = the *initial margin* posted with the *CCP* by *clearing member* i;

DF_i = the pre-funded default fund contribution of *clearing member* i.

All values used in this formula must relate to the valuation at the end of the day before the *margin* called on the final *margin* call of that day is exchanged;

(c) for situations referred to in the third sentence of the second subparagraph of Article 301(1) of Chapter 3 of the Counterparty Credit Risk (CRR) Part of the *PRA Rulebook*, the *CCP* must calculate the value of the transactions referred to in the first sentence of that subparagraph in accordance with the formula set out in subparagraph (1) (b), and must determine $EBRM_i$ in accordance with Chapter 3 of the Settlement Risk (CRR) Part of the *PRA Rulebook*;

(2) with regards to *institutions*, the netting sets must be the same as those set out in the definition of “netting set” in the Glossary of the *PRA Rulebook*;

(3) with regards to *FCA investment firms* that fall under the scope of *Part 9C rules*, the netting sets must be the same as those set out in the definition of "netting set (in MIFIDPRU)" in the Glossary of the *FCA Handbook*;

(4) a *CCP* that has exposures to one or more *CCP*s must treat those exposures as if they were exposures to *clearing members* and include any *margin* or pre-funded contributions received from those *CCP*s in the calculation of K_{CCP};

(5) a *CCP* that has in place a binding contractual arrangement with its *clearing members* that allows that *CCP* to use all or part of the *initial margin* received from its *clearing members* as if they were pre-funded contributions must consider that *initial margin* as pre-funded contributions for the purposes of the calculation in paragraph (1) and not as *initial margin*;

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(6) where collateral is held against an account containing more than one of the types of contracts and transactions referred to in Article 301(1) of Chapter 3 of the Counterparty Credit Risk (CRR) Part of the *PRA Rulebook*, the *CCP* must allocate the *initial margin* provided by its *clearing members* or *clients*, as applicable, in proportion to the EADs of the respective types of contracts and transactions calculated in accordance with paragraph (1), without taking into account *initial margin* in the calculation;

(7) a *CCP* that has more than one *default fund* must carry out the calculation for each *default fund* separately;

(8) where a *clearing member* provides *client clearing* services, and the transactions and collateral of the *clearing member*'s *clients* are held in sub-accounts which are separate from those of the *clearing member*'s proprietary business, the *CCP* must:

(a) carry out the calculation of EAD_i for each sub-account separately; and

(b) calculate the *clearing member*'s total EAD_i as the sum of the EADs of the *clients'* sub-accounts and the EAD of the *clearing member*'s proprietary business sub-account;

(9) for the purposes of paragraph (7), where DF_i is not split between the *clients'* sub-accounts and the *clearing member*'s proprietary business sub-accounts, the *CCP* must allocate DF_i per sub-account according to the respective fraction the *initial margin* of that sub-account has in relation to the total *initial margin* posted by the *clearing member* or for the account of the *clearing member*; and

(10) a *CCP* must not carry out the calculation in accordance with 2.2 where the *default fund* covers cash transactions only.

3.2 For the purposes of 3.1(1)(b), a *CCP* must use the method specified in Article 223 of the Credit Risk Mitigation (CRR) Part of the *PRA Rulebook* with supervisory volatility adjustments set out in Article 224 of the Credit Risk Mitigation (CRR) Part of the *PRA Rulebook* to calculate the exposure value.

4 FREQUENCY AND DATES OF THE CALCULATION

4.1 A *CCP* must undertake the calculation specified in 2.2 with a monthly frequency except where 4.3 applies.

4.2 Where the frequency of the calculation is monthly, a *CCP* must:

(1) use the following reference days: January 31, February 28 (or February 29 in a leap year), March 31, April 30, May 31, June 30, July 31, August 31, September 30, October 31, November 30, December 31; and

(2) undertake that calculation (the day of calculation) on respectively: February 1, March 1, April 1, May 1, June 1, July 1, August 1, September 1, October 1, November 1, December 1, January 1.

4.3 A *CCP* must undertake the calculation referred to in 2.2 and the reporting referred to in 5.1 with a weekly frequency in the following situations:

(1) where, following the default of one *clearing member*, a *CCP* is obliged to use any portion of the pre-funded financial resources that it contributed to the default waterfall in accordance with Chapters 2 and 3 of the Default Waterfall Part; or

(2) where, following the default of one *clearing member,* a *CCP* is obliged to make use of the *default fund* contributions of non-defaulting *clearing members* in accordance with Chapter 2 of the Default Fund Part.

4.4 A *CCP* must continue to undertake the calculation referred to in 2.2 with a weekly frequency until the levels in 4.3(1) or (2) are restored to the levels set in Chapters 2 and 3 of the Default Waterfall Part or Chapter 2 of the Default Fund Part (as applicable).

4.5 Where the frequency is weekly, a *CCP* must:

(1) undertake the first calculation on the day following the day on which the situation in 4.3 occurred;

(2) use the day on which the situation in 4.3 occurred as the first reference day; and

(3) for the subsequent calculations, use the day before the day of the calculation as the reference day.

4.6 Where the day of calculation is a public holiday, Saturday or Sunday, a *CCP* must carry out the calculation on the following *business day.*

5 REPORTING OF INFORMATION

5.1 A *CCP* must report the following information to those of its *clearing members* which are *institutions* or *FCA investment firms* and to the *PRA* and *FCA*:

(1) the hypothetical capital (K_{CCP});

(2) the sum of pre-funded contributions (DFCM);

(3) the amount of its pre-funded financial resources that it is required to use — by law or due to a contractual agreement with its *clearing members* — to cover its losses following the default of one or more of its *clearing members* before using the default fund contributions of the remaining *clearing members* (DFCCP).

Where the *CCP* has more than one *default fund*, it must report the information in the first subparagraph for each *default fund* separately.

5.2 The frequency of the reporting required by 5.1 must be monthly except where 4.3 applies.

5.3 Where the frequency of the reporting in accordance with 5.1 is monthly, a *CCP* must use a reporting date that falls within five *business days* from the day of calculation set in Chapter 4 or earlier where possible.

5.4 Where the frequency of the reporting referred to in 5.1 is weekly, a *CCP* must use the day following the day of calculation as the reporting date.

5.5 Where the reporting date is a public holiday, Saturday or Sunday, a *CCP* must use the following *business day* as the reporting date.

5.6 A *CCP* must report the information referred to in 5.1 using the template set out in Annex I (Information related to hypothetical capital) completed in accordance with the instructions set out in Annex II (Instructions for reporting of information related to hypothetical capital).

6 CALCULATION OF SPECIFIC ITEMS TO BE REPORTED BY THE CCP

6.1 For the purposes of 5.1 and 5.2, a *CCP* must apply the following:

(1) where the rules of a *CCP* provide that it use part or all of its financial resources in parallel to the pre-funded contributions of its *clearing members* in a manner that makes those resources equivalent to pre-funded contributions of a *clearing member* in terms of how they absorb the losses incurred by the *CCP* in the case of the default or insolvency of one or more of its *clearing members*, the *CCP* must add the corresponding amount of those resources to DFCM;

Near-final

(2) where the rules of a *CCP* provide that it use part or all of its financial resources to cover its losses due to the default of one or more of its *clearing members* after it has depleted its *default fund*, but before it calls on the contractually committed contributions of its *clearing members*, the *CCP* must add the corresponding amount of those additional financial resources ($DFCCP_a$) to the total amount of pre-funded contributions (DF) as follows: DF= DFCCP+ DFCM+ $DFCCP_a$.

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ANNEX I - INFORMATION RELATED TO HYPOTHETICAL CAPITAL

ID	Item	Legal references	Amount
10	Central Counterparty	–	
20	Default fund identifier	5.1	
30	Calculation date	Chapter 4	
40	Hypothetical capital (K_{CCP})	5.1 (1)	
50	Sum of pre-funded contributions (DFCM)	5.1 (2)	
60	Amount of pre-funded financial resources that it is required to use before using the default fund contributions of the remaining *clearing members* (DFCCP)	5.1 (3)	
70	Total number of *clearing members* (N)	–	

Near-final

ANNEX II - INSTRUCTIONS FOR REPORTING INFORMATION RELATED TO HYPOTHETICAL CAPITAL

This Annex contains additional instructions for the table provided in Annex I.

Frequency

Reporting of the template must be submitted with the frequency set out in Chapter 4.

Remittance Dates

The remittance dates are set out in Chapter 4.

Sign Convention

All amounts must be reported as positive figures.

The following formats and legal references must be taken into account for completing the templates:

Template ID	**Instructions**	
10	**Central Counterparty (CCP) name**	
	Format	Text, any number of characters
20	**Default fund identifier**	
	Legal references	5.1 (1)
	Instruction	In accordance with 5.1 where the *CCP* has more than one default fund, it must report the information in 5.1 (1) for each default fund separately.
	Format	Text, any number of characters
	Calculation	None
30	**Calculation date**	
	Legal references	Chapter 4

Near-final

	Note	Calculation date in accordance with Chapter 4 depending on the required frequency.
	Format	YYYY-MM-DD Four-digit year, hyphen, two-digit month, hyphen, two-digit day
	Calculation	None
40	**Hypothetical capital (KCCP)**	
	Legal references	5.1 (1)
	Instructions	The reporting currency must be identified using ISO 4217 currency code followed by a space and the amount. Figures can be rounded with a rounding error smaller than 1 %
	Format	ISO-Code amount
	Calculation	The hypothetical capital must be calculated as required in 2.2.
50	**Sum of pre-funded contributions (DFCM)**	
	Legal references	5.1 (2)
	Calculation	The pre-funded contributions must be calculated as the sum of the pre-funded contribution of *clearing member* as required in Article 308(2) of Chapter 3 of the Counterparty Credit Risk (CRR) Part of the *PRA Rulebook*.
	Instructions	The reporting currency must be identified using ISO 4217 currency code followed by a space and the

Near-final

		amount. Figures can be rounded with a rounding error smaller than 1 %.
	Format	ISO-Code amount
60	**Amount of pre-funded financial resources that it is required to use before using the default fund contributions of the remaining *clearing members* (DFCCP)**	
	Legal references	5.1(3)
	Calculation	The sum of pre-funded contributions of all *clearing members* of the *CCP* must be calculated as required in Article 308(3) of Chapter 3 of the Counterparty Credit Risk (CRR) Part of the *PRA Rulebook*.
	Instructions	The reporting currency must be identified using ISO 4217 currency code followed by a space and the amount. Figures can be rounded with a rounding error smaller than 1 %.
	Format	ISO-Code amount
70	**Total number of *clearing members* (N)**	
	Legal references	–
	Calculation	The number of the *clearing members* of the *CCP*.
	Format	Integer number

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Annex S

Interoperability Arrangements Part

In this Annex, the text is all new and is not underlined.

INTEROPERABILITY ARRANGEMENTS

Chapter content

1. **APPLICATION**
2. **APPROVAL OF INTEROPERABILITY ARRANGEMENTS**
3. **GENERAL REQUIREMENTS**
4. **RISK MANAGEMENT REQUIREMENTS**
5. **PROVISION OF MARGIN AMONGST CCPs**

1 APPLICATION

1.1 This Part applies to a *UK CCP*.

2 APPROVAL OF INTEROPERABILITY ARRANGEMENTS

2.1 A *CCP* must not enter into an *interoperability arrangement* unless it has first received a *section 138BA permission* from the *Bank* to enter into that *interoperability arrangement*.

2.2 A *CCP* must obtain a new *section 138BA permission* from the *Bank* before making any material changes to an *interoperability arrangement*.

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3 GENERAL REQUIREMENTS

3.1 A *CCP*, when establishing an *interoperability arrangement* with another *CCP* for the purpose of providing services to a particular *trading venue*, must have non-discriminatory access, to both:

(1) the data that it needs for the performance of its functions from that particular *trading venue*, to the extent that the *CCP* complies with the operational and technical requirements established by the *trading venue*; and

(2) the relevant settlement system.

4 RISK MANAGEMENT REQUIREMENTS

4.1 A *CCP* that enters into an *interoperability arrangement* must:

(1) put in place adequate policies, procedures and systems to effectively identify, monitor and manage the risks arising from the arrangement so that each *CCP* that enters into the arrangement can meet its obligations in a timely manner;

(2) agree on the respective rights and obligations of each *CCP* that enters into the arrangement, including the applicable law governing their relationships;

(3) identify, monitor and effectively manage credit and liquidity risks so that a default of a *clearing member* of one *CCP* does not affect an *interoperable CCP*; and

(4) identify, monitor and address potential interdependences and correlations that arise from an *interoperability arrang*ement that may affect credit and liquidity risks relating to *clearing member* concentrations, and pooled financial resources.

4.2 For the purposes of 4.1(2), a *CCP* must ensure that the moment of entry and the moment of irrevocability of transfer orders into the respective systems of each *CCP* are, to the extent possible, coordinated in accordance with the Financial Markets and Insolvency (Settlement Finality) Regulations 1999.

4.3 The terms of the *interoperability arrangement* must outline the process for managing the consequences of a default of one of the *CCPs* with which an *interoperability arrangement* has been concluded.

4.4 Where the risk-management models used by each *CCP* to cover their exposure to their *clearing members* or their reciprocal exposures are different, the *CCP* must:

(1) identify those differences;

(2) assess risks that may arise therefrom;

(3) take measures, including securing additional financial resources, that limit the impact of those risks on the *interoperability arrangement* as well as their potential consequences in terms of contagion risks; and

(4) ensure that those differences do not affect the *CCP's* ability to manage the consequences of the default of a *clearing member*.

4.5 A *CCP* must bear any associated costs that arise from compliance with 4.1 to 4.4, if it requests interoperability or access, unless otherwise agreed between the parties.

5 PROVISION OF COLLATERAL AMONGST CCPS

5.1 A *CCP* must distinguish in its accounts the assets and positions held for the account of the *CCP* with which it has entered into an *interoperability arrangement*.

5.2 A *CCP* that enters into an *interoperability arrangement* with another *CCP,* and only provides *initial margin* to that *CCP* under a *security financial collateral arrangement*, must ensure that the receiving *CCP* will have no right of use over the *initial margin* provided by the *CCP*.

5.3 A *CCP* that receives collateral in the form of financial instruments must deposit that collateral with an operator of a securities settlement system that is a designated system within the meaning given in regulation 2(1) of the Financial Markets and Insolvency (Settlement Finality) Regulations 1999.

5.4 A *CCP* must ensure that, as part of the *interoperability arrangement,* the collateral referred to in 5.2 and 5.3:

(1) is available to the receiving *CCP* only where the *CCP* which has provided it defaults; and

(2) is readily returned to the *CCP* providing the collateral where the *CCP* which has received it defaults.

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