

Notice No.: RISK-2019-006

Issue Date: 12 February 2019

Subject: Clearing Membership Structure Changes and Contribution to Default Fund

Notice to all Members

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Pursuant to the Clearing Rules of the DCCC and DGCX By-Laws, Members are hereby advised of the following:

Members are required to note that DCCC consulted on proposed changes to the DCCC Clearing Rules in 2016 (“DCCC Clearing Rules”) that were prepared in line with Securities Commodity Authority (“SCA”) Board Decision No. (11) of 2015 (SCA CCP Regs).

Following this consultation process, DCCC will now commence the implementation phase. In doing so, the DCCC recognises that these changes will impact all the Clearing Members (“CMs”) and it is therefore appropriate to provide sufficient time to allow CMs to make the necessary changes as required. **The changes detailed in this Notice will be effective on and from Wednesday 1 May 2019.**

This Notice sets out both the changes and requisite timetable for implementation, as follows:

Part I: Membership Changes

CMs are required to note that the current membership structure at DCCC provides for the following categories of Clearing Membership (“CM”):

- a) **Broker Clearing Member:** Authorized to clear proprietary transactions and customer transactions and clear transactions of other Exchange Member’s (“EMs”). The right to clear customer transactions are subject to SCA approval.
- b) **Trade Clearing Member:** Authorized to clear only proprietary transactions.
- c) **Special Clearing Member (SCM):** A SCM is a CM but not an EM, since SCM do not have trade execution rights. They are authorized to only clear transactions of other EMs.

The requirements for each category of current membership are set out below:

Membership Category	Minimum clearing Commitment (MCC)	Minimum Net Current Tangible Asset (“NCTA”) requirement
Broker Clearing Member (BCM)	USD 150,000	USD 350,000
Trade Clearing Member (TCM)	USD 75,000	USD 100,000
Special Clearing Member (SCM)	USD 150,000	USD 350,000

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DCCC will replace the current categories of membership with a new model that will be aligned with the SCA CCP Regulations and would provide for an enhanced membership model in line with global industry standards. The following clearing membership categories will be introduced:

- a) General Clearing Member (GCM)
- b) Direct Clearing Member (DCM)
- c) Trade Clearing Member (TCM)

Membership Category	Clear Proprietary trades	Clear Client trades	Clear EMs trades	Clear DMAs trades
GCM	√	√	√	√
DCM	√	√	x	√
TCM	√	x	x	x

(* EM = Exchange Member; DMA = Direct Market Access)

Existing SCMs will be considered as GCMs and all GCMs will be required to obtain an SCA regulatory licence in order to clear transactions on behalf of EMs.

DCMs will only be in a position to clear Client and/or DMA trades upon obtaining a valid SCA regulatory licence.

Each membership category must meet minimum NCTA and Minimum Clearing Commitment("MCC") requirements as follows:

Membership Category	Minimum clearing Commitment (MCC)	Minimum NCTA Requirement
General Clearing Member (GCM)	\$75,000	\$500,000
Direct Clearing Member (DCM)	\$50,000	\$350,000
Trade Clearing Member (TCM)	\$25,000	\$100,000

CMs will be required to advise the DCCC the category of membership they wish to transfer to, using the form attached as Annex 1 to this Notice. CMs may transfer to any of the new categories, subject to their having the necessary regulatory approvals.

All CMs will be required to sign a new Letter of Undertaking, attached as Annex 2, which is in the same format as the Letter of Undertaking that each CM was required to sign upon admittance to both DGX and DCCC.

Part II Establishment of the Default Fund

SCA CCP Regulations require a CCP to establish and administer a Default Fund ("DF") to be used in the event of breach or default. Further, the DF must be sufficient to cover any default of the two biggest CMs ("Cover-2"). Contributions to the DF will be based upon the risk

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exposures they maintain with the DCCC, and the adequacy of the DF shall be established through daily stress testing.

The DF shall have a minimum size of \$10 million, of which the DCCC shall contribute \$ 2.75 million which shall represent its "skin-in-the-game". CMs shall contribute the balance, and each CM contribution shall be the higher of either:

- a) fixed contribution based on category of membership; or
- b) floating contribution based on the risk portfolio of the respective CM (i.e. average initial margin utilized over a pre-defined period).

The levels of Fixed Contributions shall be as follows:

Category	Minimum Fixed Contribution	Additional Fixed Contribution for each EM/DMA cleared
General Clearing Member (GCM)	\$150,000	\$25,000
Direct Clearing Member (DCM)	\$100,000	\$25,000
Trade Clearing Member (TCM)	\$50,000	n/a

Example: A GCM who clears for 3 DMAs would have a fixed contribution of \$150,000 + (3*\$25,000) = \$225,000.

The Floating contribution will be 5% of average initial margin utilised by each CM for the previous month. A higher percentage may be used where required to ensure DF meets minimum size of \$10 million. Example:

Clearing Member (CM)	CM Type	Fixed DF Contribution	Ave. IM Utilisation	Floating DF Contribution (5% of Ave IM Utilisation)	Actual DF Contribution (Higher of Fixed/Floating)
A	GCM	\$150,000	\$7,000,000	\$350,000	\$350,000
B	DCM	\$100,000	\$3,000,000	\$150,000	\$150,000
C	TCM	\$50,000	\$300,000	\$15,000	\$50,000
TOTAL		\$300,000			\$550,000

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The initial DF contributions will be calculated on the basis of the average initial margin utilised during March 2019, and will be calculated on 1 April 2019, and advised to CMs shortly thereafter.

On an ongoing basis a CMs contribution towards the DF shall be subject to the following:

- a) The DF contribution shall be fixed for a calendar month.
- b) DCCC will recalculate DF contributions monthly (at the end of each month) for the subsequent month, to ensure that DF contributions are commensurate with the risk portfolio of the CMs.
- c) The contributions of individual CMs shall be based on the risk to the DCCC. i.e. the higher a CMs initial margin utilised in a calendar month, the higher would be their floating contribution towards the DF for the next month.
- d) DCCC shall accept cash collateral for the DF in US Dollars only.
- e) Requisite contributions to the DF by CMs for any month shall be made by them, before the 7th business day of the month.
- f) DCCC shall release the CMs contribution to the DF in cases where the contribution of the member is in excess of the required contribution assessed at the time of review. The release of excess contribution shall be at the beginning of the month based on the review conducted in the previous month.
- g) Failure to meet a request for contributions towards the DF will be construed as a failure to meet a margin call, and hence an Event of Default in accordance with DCCC Clearing Rules Part H.
- h) CMs are required to ensure availability of funds in their Settlement A/c towards the DF contribution.
- i) In case of failure to bring in the requisite contribution towards the DF, DCCC may advise DGCX to withdraw the trading facility of trading members and/or withdraw clearing facility until such members replenish their contribution. Further penalty as applicable for pay-in shortfall may be levied to the clearing members.

The above prescribed limits of contribution by DCCC and CMs may be reviewed by DCCC periodically, considering the prevailing market conditions. The DF shall at a minimum have net assets of US\$10 million or such higher amount as DCCC may determine from time to time. Should the net assets of the DF at any time fall below the minimum amount stipulated, DCCC shall levy additional contributions to CMs to bring the net assets of the DF to the minimum levels. Additional contribution to the DF may be called for by increasing the floating contribution to the DF.

Details of the “default waterfall” approach that would be used in the event of a CM default, together with the replenishment provisions shall be published by way of separate Notice.

Technology Changes

DCCC has sought to limit the technology impact to CMs of the changes detailed in this Notice. As a result, only those CMs who have TM rights on the EOS Platform with an incorrect System Series number will be required to change to be in line with the following convention:

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TM SERIES

Category	TM System series
Broker Member	1XXX
Broker Member House	1XXX
Broker Member Client	1XXX
Trade Member (Self Clearing)	5XXXX
Broker Member Client (DMA)	9XXXX
Broker Member Client (ISA)	3XXXX

CM SERIES

Category	CM System series
General Clearing Member (GCM)	3XXX
Direct Clearing Member (DCM)	3XXX
Trade Clearing Member (TCM)	7XXX
ISA Clearing Member	9XXX

CMs to whom this applies will be contacted by the relevant Relationship Manager.

Part III Clearing Rule Changes

The DCCC Clearing Rules have been amended to reflect the changes in membership structure and the establishment of the DF, attached as Annex 3 to this Notice.

Part IV Summary of Changes and Timetable

The table below sets out the key changes and associated deadlines:

Task	Stipulated Deadline
Submission of application for new CM status	28 February 2019
DCCC to complete review of applications	No later than 15 March 2019
Calculation of DF contributions	1 April 2019
CMs to return Letter of Undertaking	1 May 2019
CMs to have paid DF contributions	1 May 2019
DCCC Clearing Rule Changes become effective	1 May 2019

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CMs who fail to submit their application for new CM status, and/or fail to return a duly signed copy of the Letter of Undertaking and/or fail to pay the DF contribution by the dates outlined above shall be deemed to have resigned from their membership of DCCC. In such cases DCCC will take appropriate action with regard to any open positions held by that CM, be they House/Proprietary or held on behalf of Clients.

Further Information

CMs requiring further information with regard to this Notice should contact their relationship manager.