

**Notice No.:** RISK-2019-026

**Issue Date:** 13 June 2019

**Subject:** Amendment to Methodology for Calculating Default Fund Contributions and Payment of Credit Interest on Contributions

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Notice to all Members,

**Subject: Amendment to Methodology for Calculating Default Fund Contributions and Payment of Credit Interest on Contributions**

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Pursuant to the DGCX By-Laws and Clearing Rules of the DCCC, the following policy will be implemented with effect from 1 July 2019.

## 1. Introduction

Members will be aware that DCCC implemented a Default Fund (“DF”) effective 1 May 2019, and that contributions to the DF were to be calculated as being the higher of either floating or fixed rate components (Notice No.: RISK-2019-006, issued 12 February 2019 refers). Notwithstanding the fact that the methodology set out in the Notice had been the subject of market consultation in 2016, DCCC has subsequently received a number of comments regarding its appropriateness. In particular, the \$25,000 charge for clearing Trade Members (“TMs”) and/or clients with Direct Market Access (“DMA”) was of concern as it was considered that this would constrain business.

Therefore, DCCC has reviewed the methodology for calculating DF contributions and will be making those changes set out below, which shall be effective on and from 1 July 2019. For the avoidance of doubt, DCCC’s own contribution to the DF (“skin-in-the-game”) shall remain unchanged at \$ 2.75 million.

In making these changes DCCC has tried to limit the impact to Members, both financially and administratively, whilst at the same time ensuring that DF contributions more accurately reflect the risk posed by Members in terms of open positions held both on their own account and for clients. Further, DCCC has reviewed the methodology used by other clearing houses to ensure that the changes are broadly comparable.

It should be noted that many other clearing houses impose a far greater minimum default fund contribution than that levied by DCCC; \$1 million per Clearing Member is not uncommon, compared to \$150,000 being the maximum fixed contribution for a General Clearing Member of DCCC.

## 2. Proposed Changes

The following changes will be implemented with effect from 1 July 2019 onwards:

- a) DCCC will remove the \$25,000 charge for each TM and/or DMA that is cleared by a Clearing Member;
- b) The fixed rate levels of contributions will remain unchanged (i.e. \$150,000 for General Clearing Members; \$100,000 for Direct Clearing Members; and \$50,000 for Trade Clearing Members);

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- c) The floating rate will be increased from 5% to 6% of average 3-month initial margin utilisation;
- d) New bands, based upon average 3-month Open Interest (“OI”) will be introduced; and
- e) The frequency of recalculation will be amended to calendar quarterly from monthly (i.e. March, June, September and December).

Members’ current contributions are based on the higher of floating or fixed rate contributions and this has led to a majority of Members contributing on a fixed basis as the average initial margin utilisation is not sufficient to trigger the floating component. This has resulted in a less accurate assessment of the comparative risk that each Member poses to the DCCC in terms of open positions, as there is no distinction in terms of DF contributions between a Member that has very small open positions when compared with another Member that has, relatively speaking, much larger open positions.

To address this issue, and to ensure that the DF contributions are more equitably spread amongst those Members who do hold open positions, it has been decided to increase the floating rate to 6%, and to introduce an additional banding mechanism based upon average quarterly Open Interest (OI). This latter category is designed to reflect the risk posed by Members with open positions that are not of sufficient size as to trigger the floating rate, but are nonetheless still relatively large enough as to warrant a different risk calculation.

The OI bands, and consequent charges are set out below:

Percentage of OI	DF Contribution
0.05 – 0.1%	\$25,000
0.11 – 0.5%	\$30,000
0.51 – 1%	\$35,000
1.1 – 5%	\$40,000
5.1 – 10%	\$45,000
10% +	\$125,000

The table at Appendix I provides some examples as to how the new methodology would be applied in practice.

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### **3. Payment of Credit Interest**

DCCC has now received regulatory approval to pay Clearing Members credit interest on the contributions made to the Default Fund. This will be back-dated to 1 May 2019, with the first payment to be made in July 2019.

Initially the rate at which credit interest will be paid will be 50% of the rate obtained by DCCC from leading commercial banks, and the rate will be published at the beginning of each quarter on the DCCC website (<http://www.dccc.co.ae/default-management> ).

As noted above, the DF will be recalculated on a quarterly basis, and hence credit interest will be calculated on the same basis, with amounts credited to Clearing Members via the monthly fees and charges process – i.e. the amount of credit interest paid will reduce the total amount of fees and charges due to DCCC.

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

**For Dubai Commodities Clearing Corporation**

**Andrew Dodsworth**  
**Director – Operations and Risk**

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## Appendix I

The following table provides examples of how the new DF contribution methodology would be applied in practice.

Clearing Member (CM)	CM Type	Ave. Initial Margin Utilisation	Floating DF (6%)	Fixed Rate	Ave OI as a %age	OI Charge	Fixed + OI	DF Contribution (being the higher of Floating Rate vs Fixed + OI)
A	GCM	\$7,000,000	\$420,000	\$150,000	8%	\$45,000	\$195,000	\$420,000
B	DCM	\$5,000,000	\$300,000	\$100,000	4%	\$40,000	\$140,000	\$300,000
C	TCM	\$2,000,000	\$120,000	\$50,000	1%	\$35,000	\$85,000	\$120,000
D	GCM	\$1,000,000	\$60,000	\$150,000	1%	\$35,000	\$185,000	\$185,000
E	DCM	\$1,000,000	\$60,000	\$100,000	0.5%	\$30,000	\$130,000	\$130,000