

Notice No.: RISK-2019-017

Issue Date: April 01, 2019

Subject: Replenishment of the DCCC Default Fund

Notice to all Clearing Members

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Pursuant to DCCC Clearing Rule A.11¹, which permits the establishment of a Default Fund (“DF”), this Notice details the procedures by which the DF will be replenished. These procedures shall come into effect on and from 1 May 2019.

The DCCC Clearing Rules (“the Rules”) stipulate that a Clearing Member (“CM”) has an obligation to contribute to the DF. Moreover, the Rules also stipulate that a CM has obligations in terms of Replenishment Powers. Replenishment refers to the CM’s obligation to provide additional DF contributions to restore the size of the fund in the event that DCCC has had to use any contributions to the DF in the event of a CM default. If a CM’s DF contributions (including the prior layers of the default waterfall) are insufficient to cover all losses resulting from a CM’s default, non-defaulting CMs would have to provide DCCC with additional financial resources.

Replenishment of the DCCC Default Fund

After any loss event where funds from the DF are called upon as per Rule H.3.2, the non-defaulting CMs will replenish the DF within 3 business days as per the method described in this section. Should stressed losses exceed the size of the DF following a default event, then the DCCC Risk Committee (“DRC”) will review the initial margin parameters and DF size to ensure that pre-funded resources and default resources are sufficient to cover any default of the two biggest CMs.

Further contribution / replenishment of the DF

- I. Failure to meet a request for replenishment of the DF will be construed as a failure to meet a margin call, and hence an Event of Default in accordance with Rule H.
- II. In the event of usage of the DF during a calendar month, CMs shall, as per usage of their individual contribution, immediately replenish the DF within 3 business days following a request from the DCCC.
- III. If CMs’ DF contributions (including the prior layers of the default waterfall) are insufficient to cover all losses resulting from a CM’s default, CMs would have to provide DCCC with additional financial resources.
- IV. The maximum number of times that a CM may be required to make additional contributions to the DF is twice, and the maximum amount of each additional contribution shall be equal to each CM’s DF contribution at the time the default was declared. As a result, a CM’s liability in case of another CM’s default is limited to a total of three times its currently applicable DF contribution.
- V. Additional contributions are capped within a specified time. This is a period of 20 (rolling) business days, starting on the day the default was declared. If during this time one or more additional defaults occur, then the 20-rolling day period is reset, starting on the day the

¹ New Clearing Rules effective starting 01 May 2019.

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additional default is declared. The 20-rolling day period is subject to a maximum duration of 3 months.

- VI. If a default is resolved without non-defaulted CMs' DF contributions being utilised, the 20-rolling day period ends with finalisation of the default management process.
- VII. Unused additional contributions are returned by DCCC, upon finalisation of the default management process, subject to the DF being of such minimum size as DCCC considers appropriate.
- VIII. If a CM decides to resign from DCCC during the 20-rolling day period, such a CM remains liable for the full amount of assessments to be provided during this time. Only if a CM has terminated all its clearing licenses and has settled all its transactions with DCCC before a 20-rolling day period has commenced, is a CM no longer liable to provide assessments.
- IX. Independent of any additional contributions provided, and once any 20-rolling day period has ended all CMs are required to replenish their DF contributions. For this purpose, DCCC will recalculate each CM's contribution requirement, using the established methodology.

Termination and Release of DF Contributions

- I. If a CM chooses to terminate membership, the termination becomes effective from the date when CM's own transactions and client transactions have been wound up or transferred to another CM.
- II. If there is no default affecting the DF per the effective date of membership termination, a CM's DF contribution and any obligation to make additional contributions will remain as obligations until the next monthly allocation of DF contributions. At that time, the DF contribution will be repaid, and the CM will also be released from all other obligations to make additional contributions.
- III. During the period from the effective date of membership termination until the day for actual repayment of the DF contribution, the CM will not have any replenishment obligation.

Replenishment and Termination of Clearing Membership

- I. CMs have an obligation to replenish any DF contribution that is consumed in the default.
- II. If a CM effectively terminates Clearing Membership within 30 calendar days following a default, the original DF contribution, any additional contribution obligation and replenished capital, if any, that remain after utilisation in the default, will be repaid/released in the following month.
- III. During the period starting with the effective date of Clearing Membership termination until the day of actual repayment of the DF contribution, the CM will not have any Replenishment obligation.

For Dubai Commodities Clearing Corporation

Andrew Dodsworth

Director – Operations and Risk