# Intraday Margining of Central Counterparties:

# EU Practice and a Theoretical Evaluation of Benefits and Costs

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# Tools to mitigate replacement cost risk

| | |
|---|---|
| 1st line of defence | Clearing margin |
| Additional line of defence | Intraday margin |
| 2nd line of defence | Clearing funds |
| 3rd line of defence | Other financial resources |

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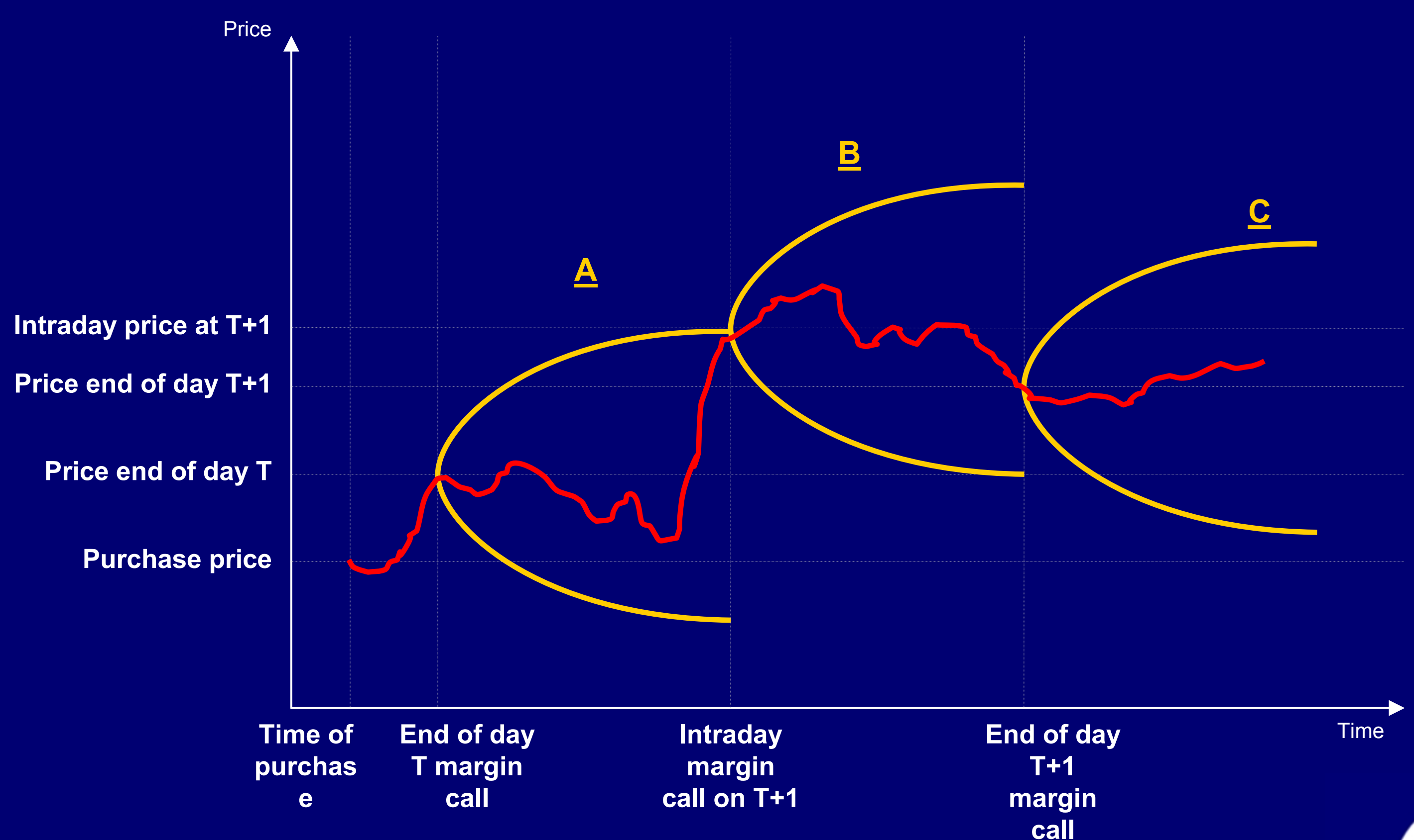
# Risk reduction



# Typology intraday margin

| *Type* | *Trigger* | *Addressed to* | *Call based on* |
|---|---|---|---|
| Routine | Hour of the day | All CMs | Updates prices and positions |
| Non-routine price driven | Extreme price changes | CMs with positions in volatile security | Updated prices |
| Non-routine size driven | Strong position changes | One or some CMs | Updates prices and positions |

# Theoretical evaluation of intraday margin

| Benefits | Cost | Side effects |
| --- | --- | --- |
| • Further reduction replacement cost risk CCP<br>• Early detection default<br>• Day traders deposit margin in line with exposure during day | For CCP:<br>• Investments<br><br>For CMF:<br>• Back-office cost<br>• Collateral | • Clearing fund:<br>  • Mutualisation ↓<br>  • Contributions ↓<br><br>• Collection of margin<br>• Trading behaviour: give-up trading |

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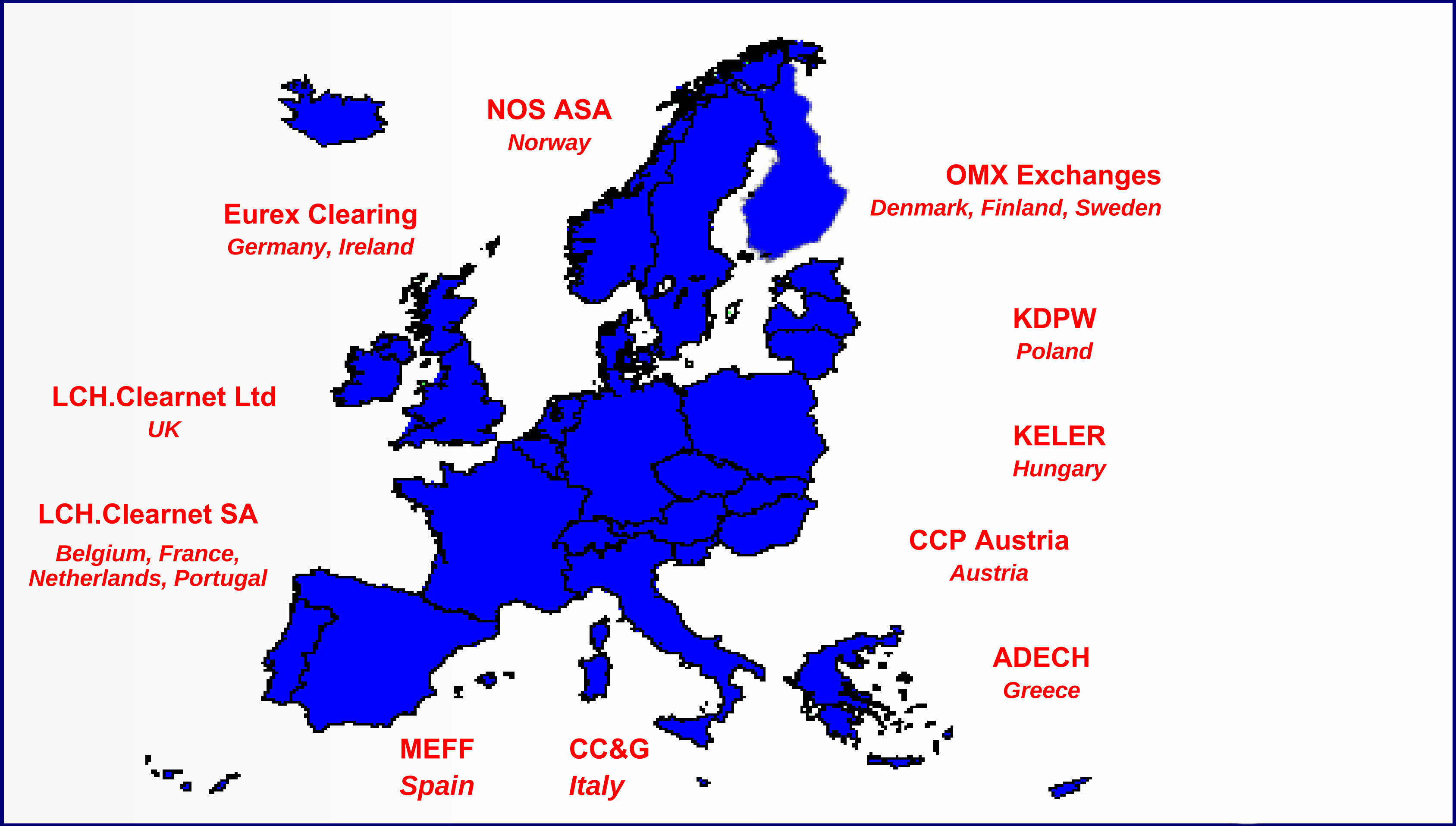
# Use of Intraday margin by EU CCPs

- survey among 11 European CCPs -



# Increasing use of routine call

**- results of survey, Feb 06 -**

## Routine call

| *CCP* | *Introduction* | *Markets* | | |
|---|---|---|---|---|
| LCH.Clearnet ltd | Since 2001 | Cash | | |
| Keler | Since 2002 | Cash | | |
| CC&G | Since 2003 | Cash | Derivatives | Bonds, repo´s |
| LCH.Clearnet SA | Intends to introduce | Cash (2006/2007) | Derivatives (2006) | |
| CCP Austria | Intends to introduce | Cash | Derivatives | |
| LCH.Clearnet Ltd | Intends to introduce | | Derivatives | |

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# Price and size driven calls widely used

**- results of survey, Feb 06 -**

| | | | | |
|---|---|---|---|---|
| **Price driven** | All CCPs ex KELER | Cash | Derivatives | Bonds, repo´s |
| **Size driven** | CCP Austria | Cash | Derivatives | |
| | OMX | | Derivatives | |
| | Eurex Clearing | Cash | Derivatives | Bonds, repo´s |
| | ADECH | | Derivatives | |
| | CC&G | Cash | Derivatives | Bonds, repo´s |
| | NOS | | Derivatives | |
| | KDPW | | Derivatives | |
| | MEFF | | Derivatives | |
| | LCH.Clearnet Ltd | Cash | | Bonds, repo´s |

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# Conclusions

- Intraday margin is best practice
- Routine call preferable from risk perspective
- In Europe, increased use routine call
- All CCPs able to respond to volatility
- Most CCPs able to respond to growing positions
- Intraday margin not without cost and side effects

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