

Client Information

On the risk management aspects of EMIR

2 July, 2013

Dear Clients,

In line with the requirements of *EMIR* (European Market Infrastructure Regulation) and *ESMA* (European Securities and Markets Authority) the rules, the announcements and the lists of conditions of KELER CCP were amended. The new regulatory documents are expected to enter into force on 1 August, 2013. This is to provide our clients with a summary of the changes in the forthcoming period.

Default fund requirements

The currently applied default fund calculation methodology changed significantly in terms of the Exchange Settlement Fund, the Collective Guarantee Fund and the CEEGEX Collective Guarantee Fund as a result of compliance with the EU requirements and the application of modern risk management principles.

As of 1 August, 2013 the size of default funds will be a function of the result of daily stress test calculations by KELER CCP.

Based on the result of stress tests the default fund is required to provide sufficient cover to manage defaults in the case of default by the largest or the second and the third largest clearing members. Various scenarios based on historic, i.e. already occurred, and hypothetical events are used in stress testing. If the default fund is insufficient, that is to say it does not cover the largest risks as required; KELER CCP makes an extraordinary default fund calculation or requires supplementary collateral to be provided.

The default fund initial margin calculated based on stress tests is distributed proportionately among our clearing members. The minimum amount of default fund contribution continues to be HUF 5 million; however, the current maximum amount was terminated as a result of the changes.

KELER CCP publishes an Announcement on the detailed algorithm of default fund formation.

Tests and results

KELER CCP completes stress testing and so-called back testing daily to verify that the elements of its guarantee system are adequate. There are detailed descriptions at the website on the nature of stress testing, back testing, and the models used to determine margins and the principles on which related methodologies are based.

KELER CCP discloses quarterly at its website the high level summary results of stress testing and back testing. At the request of the clearing member, the sub-clearing member or the segregated client, after client identification, the detailed results can be made available also. In line with our confidentiality rules each Client can access its own results only.

The most important changes in the terms of eligibility of securities and currencies

The group of instruments eligible as collateral assets was slightly tightened; however, it has no influence on the securities and currencies that are most popular in terms of blocking. In the future blocking limits will apply to some instruments; nevertheless, we expect that it will not restrict the current blocking practice in the short and medium term.

Mortgage bonds, corporate bonds will not be eligible collateral instruments in the future. The group of eligible equities will be limited to the five most liquid shares. In the case of certain instruments blocking will be possible up to the predefined limits only, if the blocking request would violate limits, the system will refuse to execute the transaction. In the case of government securities and the leading currencies eligibility will remain unlimited.

The most important changes in the KELER CCP terms of eligibility of bank guarantees

In the future bank guarantees can be accepted from our non-financial partners only, up to HUF 500 million per market and per member. A new condition of eligibility is that the issuer bank is required to make a statement whether the bank guarantee is covered by collateral.

If the bank issuing the bank guarantee submitted is not on the valid list of banks accepted by KELER CCP, then, in line with the Regulation, the new bank can be accepted only after approval by the Board; this may increase significantly the time of appraisal.

Bank guarantee limits are introduced to ensure that the collateral instruments issued by a single bank or a bank group do not exceed 10% of the value of total individual collateral instruments. In order to observe limits the bank guarantees of certain issuers may be restricted temporarily or in the case of bank guarantees already accepted the value at which the bank guarantees are accepted as collateral may be reduced. In order to avoid the above problems it is expedient if our partners advise in advance their intention to offer new bank guarantees, this may streamline the process.

The capital elements of KELER CCP in line with EMIR

In the future, in line with the provisions of EMIR, the capital of KELER CCP will consist of three separate parts:

1. The minimum capital valid from time to time in line with Article 16 of EMIR, which cannot be used to cover losses in the case of default.
2. The dedicated own resources that follow the total guarantee elements of the guilty party but are before the default fund contribution of innocent parties in the sequence of use (Section (4) Article 45 of EMIR). The dedicated own resources are distributed among the default funds, in proportion to their size.
3. The other financial resources that are the shareholders' equity of KELER CCP after the previous two capital elements are deducted; this amount can be used in the case of default after the default fund is used fully.

KELER CCP reviews at least annually the minimum capital and the dedicated own resources in line with EMIR, an Announcement will be published on their amounts. KELER CCP reviews quarterly the part of the dedicated own resources allocated to certain default funds, an Announcement will be published on the amounts. The other financial resources can be calculated based on the shareholders' equity and the previous two elements.

Sincerely yours,

KELER CCP