CC&G Market Notice

5 March 2021

Amendment to CC&G's Rules – amendments to the share derivatives section default procedure for Single Stock Dividend Futures and Futures on FTSE Mib Dividend Index

For the attention of:	**Participants of the share derivatives section**
Priority:	**High**
Topic:	**Amendment to CC&G's Rules – amendments to the share derivatives section default procedure for Single Stock Dividend Futures and Futures on FTSE Mib Dividend Index**

Dear Client,

As indicated in Borsa Italiana's Market Notice No. 6762 dated 5 March 2021 related to the amendment to the Instructions accompanying the Rules of the IDEM market, the introduction of additional maturities has been provided for futures contracts on ordinary stock dividends *("Stock Dividend Futures")* and for futures contracts on the FTSE MIB Dividend Index ("Futures on *FTSE MIB Dividend Index")*. The introduction of new maturities, in response to a specific demand of market participants, will, therefore, enhance the current offering for this class of product.

As a result of this change, and to ensure optimal risk management, specific amendments were made to the Rules related to the clearing of these instruments. In particular, with the objective to consolidate the management of potential illiquidity scenarios related to the liquidation of these positions in case of default of a Clearing Member, changes were applied to the tool under article B.6.2.1. letter f) of the Rules and currently applicable to the cleared contracts of the IDEX and AGREX derivatives sections.

To ensure the realignment of the CCP's clearing book, this tool envisages that, in the event of a severe illiquidity of the reference market, which prevents the ordinary market liquidation of the positions as outlined under the letter e) of the Rules, CC&G will implement the cash settlement of these un-transferred positions, after assigning them, on a random basis, to another Member or other Members with opposite positions.[1]

This extension would allow to mitigate the potential future impact of a severe market illiquidity scenario that could arise in relation to these instruments, also considering a reduction in the number of market makers available to negotiate these contracts. Therefore, solely with respect to the un-transferred contractual positions of the IDEM section relating to *Single Stock Dividend Futures* and *Futures on FTSE MIB Dividend Index*, in the event of severe illiquidity of the reference market, CC&G will implement, as an exception to the general principle of market settlement, a cash settlement, so as to guarantee the neutrality of its clearing book.

The amendments to CC&G’s Rules will enter into force on **22 March 2021**, subject to successful completion of the tests on initial margin calculation.

The excerpt of the Rules, with highlighted changes, is available on CC&G website www.lseg.com/ccg at the ‘’Rules and Regulations’’ section.

[1] In order to convey a clearer understanding of the functioning of the assignment criterion, it is firstly due to remark that the mechanism in question is intended to be enforced only as a residual alternative, i.e. it is intended to be used only after an attempt to liquidate the positions on the market has been performed. Secondly, the proposed mechanism will be applied from the single position perspective (i.e. the allocation will be performed for every single position of the defaulter). The mechanism will therefore apply towards every single position referrable to the participant in default, therefore excluding a “block” allocation of the positions. Moreover, the proposed allocation mechanism takes into account a very high number (n) of repeated random iterations, for every single position. The final assignment value is retrieved as an average of all the (n) repeated random iterations performed. As a consequence – by using the average of the results stemming from the repeated (n) iterations - the criterion under discussion tends to be in fact equivalent to a pro rata approach.

For further information, please contact:

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