

23 SEPTEMBER 2021

MIGRATION TO A VAR-LIKE MARGINING METHODOLOGY FOR ITALIAN, SPANISH, PORTUGUESE AND IRISH GOVERNMENT BONDS

To the attention of:	CC&G Members on Bonds Clearing Sections
Priority:	High
Topic:	Migration to a VaR-like margining methodology (FIRE)

Dear Client,

we would like to inform you, that as part of the continuous evolution of our Risk Management systems, CC&G aims at replacing the MVP SPAN-like margining methodology, currently applied to all bond instruments, with a VaR-like model (FIRE-Fixed Income Risk Engine).

Instruments in scope of the methodology change include Italian, Spanish, Portuguese, and Irish government bonds cleared in bonds and ICSD bonds clearing sections.

Expected go-live, subject to regulatory approval and successful test outcome, will be within Q1 2022.

Current SPAN-like margining methodology will continue to apply to all the remaining bond instruments listed in the above-mentioned clearing sections (i.e. corporate bonds, as well as government bonds issued by countries other than those specified above).

Client impact:

Risk manual of the FIRE model is available on CC&G website:

<https://www.euronext.com/en/post-trade/ccg/risk-management/fixed-income-risk-engine>

The adoption of the new margining methodology also involves the creation of new data flows for your internal reconciliation.

Please find below the list of the new data flows:

- D50A – Positions
- D50B – Mark-to-Market Margins
- D50C – Corporate Additional Margins – Maturity Classes
- D50D – Corporate Additional Margins
- D50E – Sovereign Price Additional Margins – Payment Flow
- D50F – Sovereign Price Additional Margins – Mapped Payment Flow
- D50G – Sovereign Price Additional Margins – Portfolio Value Variations
- D50H – Sovereign Price Additional Margins – Expected Shortfall
- D50I – Total Margins
- DF91 – Fail Positions
- DF92 – Fail MtM Margins
- DF93 – Fail Corp. Initial Margins - Mat Classes
- DF94 – Fail Corp. Init.Margins - Init.Margins
- DF95 – Fail Sov. Price Ini.Margins - Payment F.
- DF96 – Fail Sov.Price Init.Margins – Mapping
- DF97 – Fail Sov. Price Ini.Margins - Portfolio
- DF98 – Fail Sov. Price Ini.Margins - Exp. Shor.
- DF99 – Fail Total Margins
- MN13 – Sovereign Price Additional Margins - Mapping
- MN14 – Sovereign Price Additional Margins – Expected Shortfall
- MN15 – Total Margins

Manuals on new data flows are available on CC&G website:

<https://www.euronext.com/en/post-trade/ccg/risk-management/fixed-income-risk-engine>

Testing:

Clearing Members will have the opportunity to participate in the tests of the new margining methodology from 18 October 2021 up to 18 February 2022.

Tests will be performed in the CDS environment, through the usual channels:

- BCS
- ICWS
- SFTP

The new data flows will be available on a daily basis, at the end of the EOD batch closing procedure.

CC&G suggests that Clients perform tests on data flows formats to ensure that they correspond to their expectations.

Clients can also perform margins simulations, based on the new VaR-like methodology, through the BCS Service. The new client release 5.9.0, required to run the simulations, is available on Borsa Italiana web site: <https://www.borsaitaliana.it/borsaitaliana/gestione-mercati/bcs-bitclearingstation/bcs.htm>

On the same page, the new release of the API Data Layout document contains the new format of API message "NotifyWhatIf".

A data comparison among MVP and FIRE methodologies on specific portfolios on "live" environment will be available upon request to CCG-rm.group@euronext.com

With any queries during the test phase please contact:

CC&G Test VaR: CCG-helpdesk-VAR@euronext.com