18 Oct 2021
Eurex Clearing

EurexOTC Clear and OTC Currency Clearing: Recalibration of Prisma initial margin floors

Eurex Clearing Circular 092/21 EurexOTC Clear and OTC Currency Clearing: Recalibration of Prisma initial margin floors

1. Introduction

The stress period value-at-risk (VaR) is an integral part of the market-risk initial-margin of Eurex Clearing's Prisma methodology. To mitigate potential pro-cyclical behavior of initial margins, the stress period VaR serves as a prudent margin floor primarily relevant during low volatility market regimes. Model parameters comprise the selection of historical stress period dates for the risk scenarios and the quantile level on which the margin floor is evaluated and which is calibrated to match a long-term target VaR.

A very pronounced change in volatility and initial margin levels has been observed in recent years during which the Covid-19 crisis in 2020 drove volatility sharply higher. Subsequently, volatility and initial margin levels returned to the significantly lower levels observed today.

As part of our regular risk management review and model recalibrations, Eurex Clearing has decided to revise the initial-margin model-parameters of the stress period VaR floor with the aim to further improve the anti-procyclicality properties of Prisma for OTC derivatives.

With effect from **29 November 2021**, the following revisions to the initial-margin floor parameters will be performed:

- Increase of the long-term target level from 99 percent to 99.5 percent
- Inclusion of Covid-19 stress dates in the historical stress period dates

The overall impacts will translate into higher initial margin requirements in the current low volatility market environment. Clearing Member- as well as client-specific impacts can be material but will depend on the individually cleared exposure profiles per account.

The parametrization for the other market-risk initial-margin components relevant for OTC derivatives, such as the filtered historical simulation VaR and the correlation break adjustment component, will remain unchanged and will not be impacted.

Please reach out to your Clearing Key Account Manager (KAM) if you require more information.

Production start: 29 November 2021

2. Required action

There are no required actions or infrastructure changes for participants. The margin model parameter revision will be automatically reflected in the required initial margin amounts at the start of business on the production start date. All model parameters are distributed in the usual manner as part of current Member reporting (reports CC221, CC202).

3. Details of the initiative

Please refer to the tables in the attachment which summarize the relevant stress-period margin-floor parameters for EurexOTC Clear (IRS), OTC Currency Clearing (FX) and cross-product margining enabled accounts (XM), effective as of 29 November 2021.

Unless the context requires otherwise, terms used and not otherwise defined in this circular shall have the meaning ascribed to them in the Clearing Conditions or FCM Clearing Conditions of Eurex Clearing AG, as applicable.

Attachment:

- Stress-period margin-floor parameters for EurexOTC Clear (IRS), OTC Currency Clearing (FX) and cross-product margining enabled accounts (XM), effective as of 29 November 2021

Further information

Recipients:	All Clearing Members, FCM Clearing Members, Basic Clearing Members, Disclosed Direct Clients of Eurex Clearing AG, vendors and other affected counterparties

Target groups:	Front Office/Trading, Middle + Backoffice, IT/System Administration
Contact:	Your Clearing Key Account Manager or otcclear@eurex.com
Web:	www.eurex.com/ec-en/
Authorized by:	Dmitrij Senko

Further information

→ Attachment to Eurex Clearing circular 092/21

3. Details of the initiative

The tables below summarize the relevant stress-period margin-floor parameters for EurexOTC Clear (IRS), OTC Currency Clearing (FX), and cross-product margining enabled accounts (XM), effective as of 29 November 2021:

Liquidation group	Risk horizon [1]	Simulation type [1]	Number of scenarios [1]	Robust anchor level [2]	Long-term target level [2]
PFI01 (OTC IRS)	5 days	Stress (floor)	250	IRS: 95.7% XM: 96.6% [3]	99.5%
PFX01 (OTC FX)	5 days	Stress (floor)	250	96.1%	99.5%

Liquidation group	Historical stress period dates [2] (dd/mm/yyyy)
PFI01 (OTC IRS, XM)	10/06/2008-23/06/2008, 18/07/2008-24/07/2008, 15/10/2008-13/02/2009, 16/03/2009-03/04/2009, 29/05/2009-09/07/2009, 12/08/2011-22/09/2011, 26/10/2011-22/11/2011, 29/12/2011-11/01/2012, 03/01/2013-23/01/2013, 23/06/2016-13/07/2016, 10/03/2020-30/03/2020
PFX01 (OTC FX)	15/09/2008-06/07/2009, 24/05/2010-18/06/2010, 24/06/2016-28/07/2016

[1] Unchanged, provided for completeness only.
[2] Changed as part of the recalibration announced with this circular. Please note that the changed parametrization is valid only for the stress period VaR component, the parametrization for the other margin components (filtered historical simulation VaR and correlation break adjustment) remain unchanged.
[3] The robust anchor level parameters differ between OTC IRS only accounts and XM activated accounts purely for technical reasons. The resulting margin floor values embedded in the Prisma initial margin model are equivalent.