

Notice No.: RISK-2019-018

Issue Date: April 01, 2019

Subject: Collateral Segregation Enhancements

Notice to all Members,

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Pursuant to the DGCX By-Laws and Clearing Rules of the DCCC, Clearing Members are hereby advised of the following.

DCCC has undertaken a review of the functionality within the EOS Clearing Platform (“EOS Clearing”) as it relates to the segregation of positions and collateral and as a result will be implementing enhancements during Q3/4 of 2019, subject to regulatory approval. This Notice provides Clearing Members with an overview of the proposed enhancements.

Clearing Members will be aware that open positions held by Clearing Members are maintained in Position Keeping Accounts (“PKAs”) in EOS Clear. The PKA structure is such that every Clearing Member, and Trade Member has one House PKA, although they may have more than one House PKA, and for each client a separate PKA is created in EOS Clear. This provides for complete segregation of open positions held by Clearing Members.

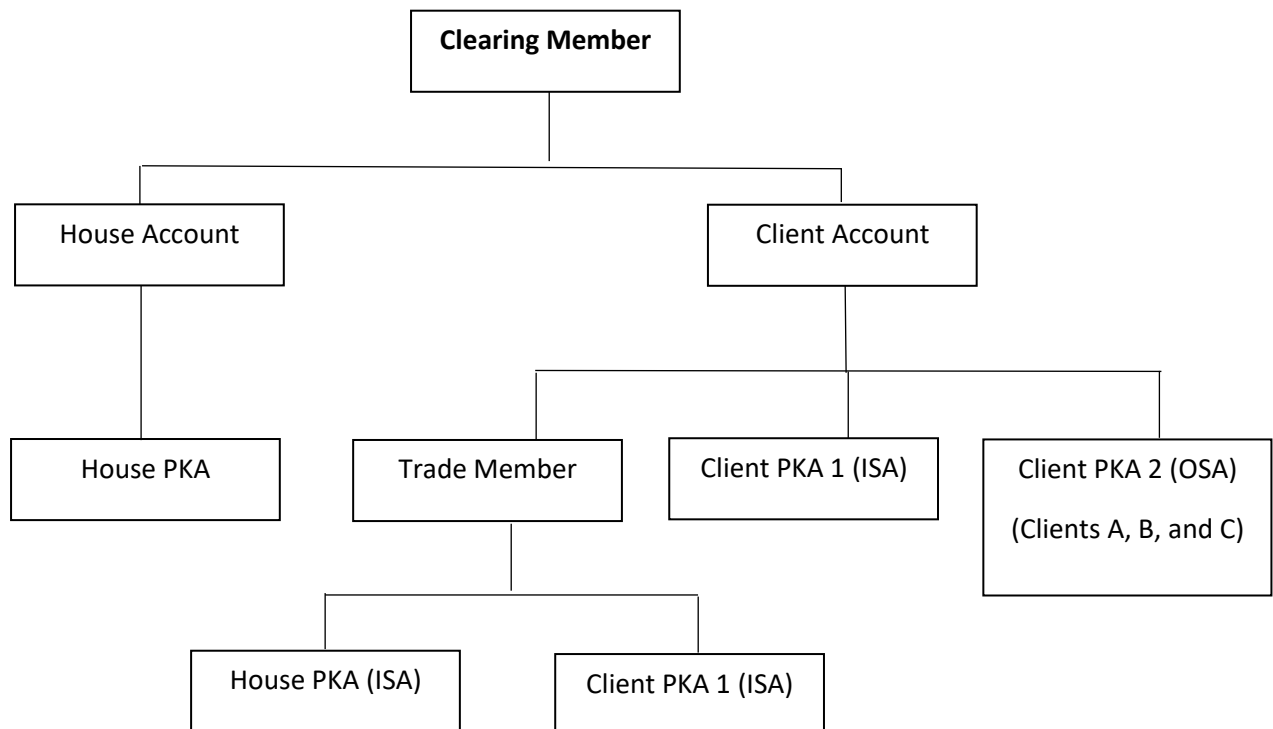
All PKAs hold positions on an automatic net basis, but initial margin requirements are calculated on a gross basis where there is more than one House PKA and/or more than one Client PKA. Variation margin is calculated on the same gross basis, with the result that there are two pay-in/out instructions - i.e. one for initial margin and one for variation margin requirements – that are sent by DCCC to the relevant settlement bank, where Clearing Members maintain a single settlement account.

DCCC will be enhancing the segregation functionality in EOS Clearing such that the segregation of open positions will be persisted through to the margin pay-in/out instructions and will consequently require Clearing Members to maintain two settlement accounts – “House” and “Client” – where they hold open positions in both House and Client PKAs. Additionally, the mapping and nomenclature of PKAs will change, as follows:

Clearing Member House Account: for holding Clearing Member’s proprietary trading positions only.

Clearing Member Client Account: for holding Clearing Member’s direct client (i.e. clients of the Clearing Member) positions; and all Trade Member positions, be they proprietary or client positions.

Clearing Members and Trade Members may still have more than one House PKA if they wish. Clearing Members may offer either an Individual Segregated Account (“ISA”) for those clients who wish their positions to be kept separate from all other positions, or Omnibus Segregated Accounts (“OSA”, also known as “Pooled Segregated Accounts” in the DCCC Clearing Rules), where client positions will be grouped together, but kept segregated from the proprietary positions of the Clearing Member. This is shown below:



Positions in Clearing Member House, ISA and OSA PKA's will be maintained on a net basis, as is the case today, with initial margin calculations also performed at a gross basis as is the case today. Where a Clearing Member has more than one House and/or ISA/OSA PKAs, then the final pay-in/out instructions will represent the House net initial margin calculation and the net of the OSA and ISA initial margin calculations. Similarly, variation margin calculation will be performed for each House, ISA, and OSA PKA, resulting in a House pay-in/out instruction, and a Client pay-in/out instruction.

Clearing Members who wish to offer OSAs to their clients will be required to obtain written consent from each client that they wish their positions to be held in such type of account. The holding of client positions in an OSA does not remove the obligation of Clearing Members to maintain, in their own books and records, accurate and complete records of each individual client's position and collateral, and which Clearing Members may be requested to provide to DCCC upon demand.

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As these changes will result in margin pay-in/out instructions at House and Client level, where those Clearing Members hold open positions at both House and Client account level, so an additional settlement account will be required to be opened with the relevant clearing/settlement bank. This will allow a greater degree of segregation of collateral than the current position.

DCCC is currently working with its vendors to deliver the necessary technical changes and is planning to implement them in Q3/4 this year, subject to regulatory approval.

Clearing Members requiring further information with regard to this Notice should contact cns@dgcx.ae.

For Dubai Commodities Clearing Corporation

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