

MFSA

MALTA FINANCIAL SERVICES AUTHORITY

*Assessment of Applicant Central Counterparties (CCP) - EMIR
Requirements*

Name of Applicant:

Date of Submission:

*Version N°: I
Issued: 4th March 2013*

Scope of the Assessment Questionnaire

This questionnaire is addressed to legal persons established in the Union which intend to provide clearing services as a Central Counterparty, and will therefore wish to apply for authorisation with the Malta Financial Services Authority, established as competent authority under Regulation 3 of Legal Notice 81 of 2013, in accordance with the procedure set out in Regulation (EU) No 648/2012 of the European Parliament and of the Council of 4 July 2012 on OTC derivatives, central counterparties and trade repositories (EMIR).

This self-assessment questionnaire has the purpose to facilitate and hasten the application process, and may be utilised as a checklist by the applicant to ensure that the necessary requirements are in place prior to the issuance of a CCP authorisation.

Authorisation to act as a CCP under EMIR will be effective for the entire territory of the Union.

CCP are required at all times to comply with the conditions necessary for authorisation.

The MFSA may adopt in respect of CCPs established in Malta, additional requirements including certain requirements for authorisation under Directive 2006/48/EC (the Capital Requirement Directive – ‘CRD’).

Abbreviations

'RTS CCP – I' - Commission Delegated Regulation (EU) No 152/2013 of 19 December 2012 supplementing Regulation (EU) No 648/2012 of the European Parliament and of the Council with regard to regulatory technical standards on capital requirements for central counterparties

'RTS CCP – II' - Commission Delegated Regulation (EU) No 153/2013 of 19 December 2012 supplementing Regulation (EU) No 648/2012 of the European Parliament and of the Council with regard to regulatory technical standards on requirements for central counterparties

'ITS CCP' - Commission Implementing Regulation (EU) No 1249/2012 of 19 December 2012 laying down implementing technical standards with regard to the format of the records to be maintained by central counterparties according to Regulation (EU) No 648/2012 of the European Parliament and of the Council on OTC derivatives, central counterparties and trade repositories

PART A

Section 1: Capital Requirements for CCPs

This section deals with the Capital Requirements for CCPs under Commission Delegated Regulation (EU) No 152/2013 of 19.12.2012 - Supplementing Regulation (EU) No 648/2012 of the European Parliament and of the Council with regard to regulatory technical standards on capital requirements for central counterparties.

[A.1] Capital Requirements

A.1.1 *Confirm that the applicant has a permanent and available initial capital of at least €7.5 million. {Art 16 (1) EMIR}*

A.1.2 *Does the CCP have procedures in place to identify all sources of risks that may impact its on-going functions and has considered the likelihood of potential adverse effects on its revenues or expenses and its level of capital? {Art 1 (2) RTS CCP - I }*

A.1.3 *Does the CCP have in place a notification procedure whereby should its capital be lower than 110% of the capital requirements or lower than 110% of EUR7.5million (referred to as the notification threshold) it informs the MFSA accordingly and keeps the Authority updated at least weekly, until the amount of capital held by the CCP returns above the notification threshold? {Art 1 (3) RTS CCP - I }*

A.1.4 *Does the CCP procedure referred to in A.1.3 above requires the notification to be made in writing and to contain: [i] the reasons for the CCP's capital being below the notification threshold and a description of the short-term perspective of the CCP's financial situation; and [ii] comprehensive description of the measures the CCP intends to adopt ensure the on-going compliance with the capital*

requirements? {Art 1 (4) RTS CCP - I }

[A.2] Capital requirements for winding down or restructuring

A.2.1 *Does the CCP calculate its capital required to ensure an orderly winding down or restructuring of the activities of the CCP by dividing the annual gross operational expenses by twelve in order to determine its monthly gross operational expenses, and multiply the resulting number by its time span for winding down or restructuring its activities? {Art 2 (1) RTS CCP - I }*

A.2.2 *Has the CCP submitted to the MFSA its own estimates of the appropriate time span for winding down or restructuring its activities? {Art 2 (2) RTS CCP - I }*

A.2.3 *Does the CCP have procedures in place which require it to update its estimate of the appropriate time span for winding down or restructuring its activities whenever there is a significant change in the assumptions underlying the estimation and submit this updated estimate to the MFSA? {Art 2 (3) RTS CCP - I }*

A.2.4 *Are the operational expenses used in the above calculation in accordance with IFRS or equivalent GAAPs, and on the basis of information obtained from the most recent audited information from the CCP's annual financial statement? {Art 2 (4) RTS CCP - I }*

[A.3] Capital requirements for operational and legal risks

A.3.1 *Does the CCP calculate its capital requirements for operational (including legal) risk using the Basic Indicator Approach or Advanced measurement Approach? {Art 3 (1) RTS CCP - I }*

A.3.2 *If the CCP chooses to use the Basic Indicator Approach, is this approach in line with the Article 103 of Directive 2006/48/EC? (If the answer to this question is Yes please reply to questions A.3.3 - A.3.5) {Art 3 (2) RTS CCP - I }*

A.3.3 *Does the CCP have in place a well-documented assessment and management system for operation risk with clear responsibilities assigned for this system, and does the CCP have in place procedures which require regular independent reviews by knowledgeable third parties of this system? {Art 3 (3) RTS CCP - I }*

A.3.4 *Is the CCP operational risk assessment system integrated into its risk management processes? Please provide details? {Art 3 (4) RTS CCP - I }*

A.3.5 *Does the CCP have procedures which require the CCP to have in place a system that generates and sends operational risk reports to senior management and which allows for appropriate action to be taken on the basis of these reports? {Art 3 (5) RTS CCP - I }*

A.3.6 *If the CCP chooses an Advanced Measurement Approaches, has it applied for permission by the MFSA use this approach? {Art 3 (6) RTS CCP - I }*

A.3.7 *If the CCP uses an Advanced Measurement Approach and has received the relevant approval from the MFSA, does it hold capital which is at all times more than or equal to 80% of the capital required using the basic indicator approach? {Art 3 (7) RTS CCP - I }*

[A.4] Capital requirements for credit risk, counterparty credit risk and market risk which are not already covered by specific financial resources as referred to in Article 41 to 44 of EMIR

A.4.1 *Does the CCP calculate its capital requirements as the sum of 8% of its risk-*

weighted exposure amounts for credit and counterparty credit risk and its capital requirements for market risk? {Art 4 (1) RTS CCP - I }

A.4.2 *Does the CCP calculate its capital requirements for market risk, not already covered by specific financial resources as referred to in Article 41 and 44 of EMIR, by using the methods provided for in Annexes I to IV of the CRD (Directive 2006/49/EC)? {Art 4 (2) RTS CCP - I }*

A.4.3 *Does the CCP apply the Standardised Approach for credit risk provided for in Article 78 to 83 of the CRD (Directive 2006/48/EC), for the calculation of the risk-weighted exposure amounts for credit risk which is not already covered by specific financial resources as referred to in Article 41 to 44 of EMIR? {Art 4 (3) RTS CCP - I }*

A.4.4 *Does the CCP use the Mark-to-market method provided for in Annex III, part 3 of the CRD (Directive 2006/48/EC) and the Financial Collateral Comprehensive Method applying supervisory volatility adjustments provided for in Annex VIII, Part 3 of the CRD (Directive 2006/48/EC), for the calculation of the risk-weighted exposure amounts for counterparty credit risk, which is not already covered by specific financial resources as referred to in Article 41 to 44 of EMIR? {Art 4 (4) RTS CCP - I }*

A.4.5 *In the case that the CCP does not fulfil the conditions referred to in Article 52 and 53 of EMIR and where it does not use its own resources, the CCP shall apply a risk weight of 1250% to its exposure stemming from contributions to the default fund of another CCP and a risk weight of 2% to its trade exposures with another CPP? {Art 4 (5) RTS CCP - I }*

[A.5] Capital requirements for business risk

A.5.1 *Did the CCP have submit to the MFSA for approval its own estimate of the capital necessary to cover losses resulting from business risk based on reasonably foreseeable adverse scenarios relevant to the CCP's business model? {Art 5 (1) RTS CCP - I }*

[Empty rectangular box]

A.5.2 Is the CCP's capital requirement for business risk equal to the approved estimate and above the minimum amount of 25% of its gross operational expenses? {Art 5 (2) RTS CCP - I }

[Empty rectangular box]

PART B

Section 1: Organisational Requirements

This section deals with the Organisational Requirements for CCPs under articles 26-35 of EMIR.

[B.1] General Provisions

B.1.1 Specify all the governance arrangements, which might include but are not limited to an organisational structure, risk management procedures, internal control mechanisms, etc... Further documentation may be supplied as an Annex to the self-assessment in order to substantiate your answer. {Art 26 (1) EMIR}

B.1.2 Identify how the organisational structure will ensure continuity and orderly functioning in the performance of the services and activities to be provided by the CCP. {Art 26 (3) EMIR}

B.1.3 Clarify how the reporting lines for risk management will be segregated from the other operations to be conducted by the CCP. {Art 26 (4) EMIR}

B.1.4 Specify the manner in which the remuneration policy will promote sound and effective risk management which amongst others will not incentivise relaxed risk standards. {Art 26 (5) EMIR}

B.1.5 Indicate the manner in which the IT systems will adequately deal with the complexity, variety and type of services and activities performed in order to preserve high standards of security and confidentiality of the data maintained. {Art 26 (6) EMIR}

B.1.6 *Does the CCP have governance arrangements that define its organisational structure? Also does it have clearly specified and well documented policies, procedures and processes by which the Board and senior management operate? Do these policies include the composition, roles and responsibilities of the Board and any Board Committees; the roles and responsibilities of the management structure; the reporting lines between the senior management and the board; the procedures for the appointment of the Board members and senior management; the design of the risk management, compliance and internal control functions; the processes for ensuring accountability to stakeholders? If Yes to the previous questions, please provide a copy of these policies. {Art 3 (1) RTS CCP-II}*

B.1.7 *Does the CCP have adequate staff to meet all obligations arising from EMIR and its supplementing Regulations, whilst avoiding sharing the staff with other group entities, unless under the terms of an outsourcing agreement? {Art 3 (2) RTS CCP-II}*

B.1.8 *Does the CCP have established lines of responsibility which are clear, consistent and well documented? Also, does its functions of chief risk officer, chief compliance officer and chief technology officer are carried out by different individuals, employed by the CCP to exclusively perform these functions? {Art 3 (3) RTS CCP-II}*

B.1.9 *Is the CCP part of a group? If Yes, does it have the necessary level of independence to meet its regulatory obligations as a distinct legal person? Can its independence be possibly compromised by the group structure or by any board member also being a member of the board of other entities of the same group? Does it therefore have in place specific procedures for preventing and managing conflicts of interest including with respect to outsourcing arrangements? {Art 3 (4) RTS CCP-II}*

B.1.10 *Does the CCP maintain a two-tiered board system? If Yes, are the roles and responsibilities of the Board as established in EMIR allocated to the supervisory board and the management board as appropriate? {Art 3 (5) RTS CCP-II}*

B.1.11 *Are the risk management policies, procedures, systems and controls part of a coherent and consistent governance framework that is reviewed and updated regularly? {Art 3 (6) RTS CCP-II}*

| |
|--|
| |
|--|

Risk management and internal control mechanisms

B.1.12 *The CCP is required to have a sound framework for the comprehensive management of all material risks to which it is or may be exposed. Does the CCP therefore have in place established documented policies, procedures and systems that identify measure and manage such risks? Does the CCP structure them in a way that ensures that clearing members properly manage and contain the risks they pose to the CCP? {Art 4 (1) RTS CCP-II}*

| |
|--|
| |
|--|

B.1.13 *Does the CCP have an integrated and comprehensive view of all relevant risks, including the risks it bears from and poses to its clearing members and, to the extent practicable, clients as well as the risks it bears and poses to other entities such as, but not limited to interoperable CCPs, securities settlement and payment systems, settlement banks, liquidity providers, central securities depositories, trading venues served by the CCP and other critical service providers? {Art 4 (2) RTS CCP-II}*

| |
|--|
| |
|--|

B.1.14 *Does the CCP have in place appropriate risk management tools to be in a position to manage and report on all relevant risks? Do these tools include the identification and management of system, market or other interdependencies? If the CCP provides services linked to clearing that may present a distinct profile from its functions and potentially pose significant additional risks to it, does the CCP manage those additional risks adequately, by inter alia separating legally the additional services that the CCP provides from its core functions? {Art 4 (3) RTS CCP-II}*

| |
|--|
| |
|--|

B.1.15 *Do the CCP's governance arrangements ensure that its Board assumes final responsibility and accountability for managing the CCP's risk? Has the Board defined, determined and documented an appropriate level of Risk tolerance and risk bearing capacity for the CCP? Does the Board and its senior management ensure that the CCP's policies, procedures and controls are consistent with the CCP's risk tolerance and risk bearing capacity and that they address the manner in which the CCP identifies, reports, monitors and manages risks?*

Please provide relevant documentation in this regard. {Art 4 (4) RTS CCP-II}

B.1.16 *Does the CCP employ robust information and risk-control systems to allow it and where appropriate its clearing members and where possible clients with the capacity to obtain timely information and to apply risk management policies and procedures appropriately? Do these systems as a minimum ensure that credit and liquidity exposures are monitored continuously at the CCP level as well as at the clearing member level and, to the extent practicable, at the client level? Please provide relevant documentation of these systems. {Art 4 (5) RTS CCP-II}*

B.1.17 *Does the CCP's risk management function have the necessary authority, resources, expertise and access to all relevant information and that it is sufficiently independent from the other functions of the CCP? Is the chief officer responsible for implementing the risk management framework including the policies and procedures established by the board? {Art 4 (6) RTS CCP-II}*

B.1.18 *Does the CCP have adequate internal control mechanisms to assist the board in monitoring and assessing the adequacy and effectiveness of its risk management policies, procedures and systems? Do these mechanisms include sound administrative and accounting procedures, a robust compliance function and an independent internal audit and validation or review function? Please provide relevant supporting documentation. {Art 4 (7) RTS CCP-II}*

B.1.19 *Will the CCP be preparing audited financial statements on an annual basis? {Art 4 (8) RTS CCP-II}*

Compliance policy and procedures

B.1.20 *Does the CCP have established, implemented and maintained adequate policies and procedures designed to detect any risk of failure by the CCP and its employees to comply with its obligations under EMIR? {Art 5 (1) RTS CCP-II}*

B.1.21 *Provide evidence that the rules, procedures and contractual arrangements are clear and comprehensive and they ensure compliance with EMIR and all of its supplementing Regulations. These rules, procedures and contractual arrangements shall be recorded in writing or any other durable medium, and shall be accurate, up-to-date and readily available to the Authority, clearing members and clients. Further clarify the manner in which the soundness of these rules procedures and contractual arrangements is ensured. {Art 5 (2) RTS CCP-II}*

B.1.22 *Identify the manner in which the relevant regulatory principles and industry standards and market protocols are considered when developing the rules, procedures and contractual arrangements, and thereon indicate where such practices have been incorporated into the documentation governing the rights and obligations of the CCP, its clearing members and other relevant third parties. {Art 5 (3) RTS CCP-II}*

B.1.23 *Explain whether measures have been created to identify and analyse potential legal conflicts and thereon the capability to develop rules and procedures to mitigate legal risk resulting from such issues. The rules and procedures should clearly indicate the law that is intended to apply to each aspect of the activities and operations. {Art 5 (4) RTS CCP-II}*

Compliance Function

B.1.24 *Specify whether a permanent and effective compliance function exists, which is operated independently from other functions within the organisation. Furthermore it should be identified whether the compliance function has the necessary authority, resources, expertise and access to all relevant information. The nature, scale and complexity of the business should be taken into account when establishing the compliance function. {Art 6 (1) RTS CCP-II}*

B.1.25 *Specify whether the Chief Compliance Officer will have any of the following responsibilities: {Art 6 (2) RTS CCP-II}*

- *Monitoring and assessing the adequacy and effectiveness of the*

measures put in place in referred to in B.1.23 above, and the actions taken to address any deficiencies in the CCP's compliance with its obligations;

- administering the compliance policies and procedures established by senior management and the board;*
- advise and assist the persons responsible for carrying out the CCP services and activities to comply with the CCP's obligations under EMIR and the supplementing regulatory requirements;*
- regular reporting to the board on compliance by the CCP and its employees with EMIR and any supplementing regulatory requirements;*
- establishing procedures for the effective remediation of instances of non-compliance;*
- ensuring that the relevant persons involved in the compliance function are not involved in the performance of the services or activities they monitor and that any conflicts of interest of such persons are properly identified and eliminated.*

Organisational structure and separation of the reporting lines

B.1.26 *Please provide evidence that the composition, role and responsibilities of the board and senior management and any board committees, are defined accordingly. These arrangements need to be clearly specified and well-documented. The board is required to establish, at a minimum an audit committee and a remuneration committee. {Art 7 (1) RTS CCP-II}*

B.1.27 *Identify which of the following responsibilities are assumed by the board: {Art 7 (2) RTS CCP-II}*

- the establishment of clear objectives and strategies for the CCP;*
- the effective monitoring of senior management;*

- *the establishment of appropriate remuneration policies;*
- *the establishment and oversight of the risk management function;*
- *the oversight of the compliance function and internal control function;*
- *the oversight of outsourcing arrangements;*
- *the oversight of compliance with all provisions of EMIR, and any other supplementing regulations therein;*
- *the provision of accountability to the shareholders or owners and employees, clearing members and their customers and other relevant stakeholders.*

B.1.28 *Identify which of the following responsibilities are assumed by senior management: {Art 7 (3) RTS CCP-II}*

- *ensuring consistency of the CCP's activities with the objectives and strategy of the CCP as determined by the board;*
- *designing and establishing compliance and internal control procedures that promote the CCP's objectives;*
- *subjecting the internal control procedures to regular review and testing;*
- *ensuring that sufficient resources are devoted to risk management and compliance;*
- *active involvement in the risk control process;*
- *ensuring that risks posed to the CCP by its clearing and activities linked to clearing are duly addressed.*

B.1.29 *Will the board delegate tasks to committees or sub-committees? If answered in the affirmative, please specify whether the board will retain the approval of decisions that could have a significant impact on the risk profile of the organisation. {Art 7 (4) RTS CCP-II}*

B.1.30 *Identify whether arrangements are in place to identify, address and manage potential conflicts of interest of members of the board and/or senior management. {Art 7 (5) RTS CCP-II}*

B.1.31 *Specify the manner in which clear and direct reporting lines, between the board and senior management, are achieved, in order to ensure that the senior management is accountable for its performance. Ensure that the reporting lines for risk management, compliance and internal audit are clear and separate from those for the other operations of the organisation. Furthermore, provide assurance that the chief risk officer will be reporting to the board either directly or through the chair of the risk committee, and also the chief compliance officer and the internal audit function will be reporting directly to the board. {Art 7 (6) RTS CCP-II}*

Remuneration Policy

B.1.32 *Provide evidence that the remuneration committee will be designing and further developing the remuneration policy, oversee its implementation by senior management and review its practical operation on a regular basis. The policy itself shall be documented and reviewed at least on an annual basis. {Art 8 (1) RTS CCP-II}*

B.1.33 *Identify whether the remuneration policy is designed to align the level and structure of remuneration with prudent risk management. Amongst others, substantiate whether the policy accounts for prospective risks as well as existing risks and risk outcomes. Also, identify whether pay out schedules are sensitive to the time horizon of risks. In particular where variable remuneration exists, whether the policy will take due account of possible mismatches of performance and risk periods and ensure that payments are deferred as appropriate. Moreover whether the fixed and variable components of total remuneration will*

be balanced and shall be consistent with risk alignment. {Art 8 (2) RTS CCP-II}

B.1.34 *Specify whether the remuneration policy provides that staff engaged in risk management, compliance and internal audit functions are remunerated in a manner that is independent of the business performance of the organisation. How is the level of remuneration determined? (e.g. in terms of responsibility; or in comparison to the level of remuneration in the business areas etc...). {Art 8 (3) RTS CCP-II}*

B.1.35 *Identify whether the remuneration policy is subject to an independent audit, and the frequency of such audits. In the affirmative, will such audits be made available to the Authority? {Art 8 (4) RTS CCP-II}*

Information technology systems

B.1.36 *Explain how the applicant will ensure that the IT systems are reliable and secure as well as capable of processing the information necessary for the organisation to perform its activities and operations in a safe and efficient manner.*

Provide procedures (and capacity planning) which prove that the systems are capable to process all remaining transactions before the end of the day in circumstances where a major disruption occurs.

Explain whether procedures for the introduction of new technology including clear reversion plans are in place. {Art 9 (1) RTS CCP-II}

B.1.37 *Specify whether the IT systems are based on internationally recognised technical standards and industry best practices, with the ultimate aim to ensure a high degree of security in information processing and to enable connectivity with its clearing members and clients as well as with its service providers. Moreover please specify whether the systems are subject to stringent testing, simulating stressed conditions, before initial use, after making significant changes and after a major disruption has occurred. Moreover please clarify whether clearing members and clients, interoperable CCPs and other interested parties are involved as appropriate in the design and conduct of these tests. {Art*

B.1.38 *Provide evidence that the organisation shall maintain a robust information security framework that appropriately manages its information security risk. The framework shall include appropriate mechanisms, policies and procedures to protect information from unauthorised disclosure, to ensure data accuracy and integrity and to guarantee the availability of the organisation’s services. {Art 9 (3) RTS CCP-II}*

B.1.39 *Specify whether the information security framework includes any of the following features:*

- access controls to the system;*
- adequate safeguards against intrusions and data misuse;*
- specific devices to preserve data authenticity and integrity, including cryptographic techniques;*
- reliable networks and procedures for accurate and prompt data transmission without major disruptions;*
- audit trails.*

{Art 9 (4) RTS CCP-II}

B.1.40 *Specify the frequency of the reviewing of the IT systems and the information security framework. Furthermore, are they subject to an independent audit, reported to the board, and made available to the Authority? {Art 9 (5) RTS CCP-II}*

Disclosure

B.1.41 *Clarify which of the following will be made available to the public, free of charge:*

(a) information regarding its governance arrangements, including the following:

- i. *its organisational structure as well as key objectives and strategies;*
 - ii. *key elements of the remuneration policy;*
 - iii. *key financial information including its most recent audited financial statements;*
- (b) *information regarding its rules, including the following:*
- i. *default management procedures, procedures and supplementary texts;*
 - ii. *relevant business continuity information;*
 - iii. *information on the CCP's risk management systems, techniques and performance in accordance with the section relating to the 'Review of Models, Stress Testing and Back Testing';*
 - iv. *all relevant information on its design and operations as well as on the rights and obligations of clearing members and clients, necessary to enable them to identify clearly and understand fully the risks and costs associated with using the CCP's services;*
 - v. *the CCP's current clearing services, including detailed information on what it provides under each service;*
 - vi. *the CCP's risk management systems, techniques and performance, including information on financial resources, investment policy, price data sources and models used in margin calculations;*
 - vii. *the law and the rules governing:*
 - a. *the access to the CCP;*
 - b. *the contracts concluded by the CCP with clearing members and, where practicable, clients;*
 - c. *the contracts that the CCP accepts for clearing;*

d. any interoperability arrangements;

e. the use of collateral and default fund contributions, including the liquidation of positions and collateral and the extent to which collateral is protected against third party claims

(c) information regarding eligible collateral and applicable haircuts;

(d) a list of all current clearing members, including admission, suspension and exit criteria for clearing membership.

{Art 10 (1) RTS CCP-II}

B.1.42 *Specify whether information regarding any material changes in the organisation's governance arrangements, objectives, strategies and key policies as well as in the applicable rules and procedures, will be disclosed free of charge to the public. {Art 10 (2) RTS CCP-II}*

B.1.43 *Specify whether the information to be disclosed to the public by the CCP will be accessible on its website, and the language in which such information will be provided. {Art 10 (3) RTS CCP-II}*

Internal Auditing

B.1.44 *Specify whether any of the following tasks are performed by the internal audit function of the organisation:*

– *Establishing, implementing and maintaining of an audit plan to examine and evaluate the adequacy and effectiveness of the CCP's systems, internal control mechanisms and governance arrangements;*

– *Issuing of recommendations based on the result of work carried out in*

accordance with above-mentioned point;

– Verifying of compliance with those recommendations; and

– Reporting internal audit matters to the board.

{Art 11 (1) RTS CCP-II}

B.1.45 Clarify whether the internal audit function has the necessary authority, resources, expertise, and access to all relevant documents for the performance of its functions. Further evidence should be provided that the internal audit function shall be sufficiently independent from the management and shall report directly to the board. {Art 11 (2) RTS CCP-II}

B.1.46 Determine whether the internal audit assesses the effectiveness of the CCP's risk management processes and control mechanisms in a manner that is proportionate to the risks faced by the different business lines and independent of the business areas assessed. Please also specify whether the internal audit function shall have the necessary access to information in order to review all of the CCP's activities and operations, processes and systems, including outsourced activities. {Art 11 (3) RTS CCP-II}

B.1.47 Clarify whether the internal audit assessment is based on a comprehensive audit plan. Furthermore please specify whether it shall be reviewed and reported to the MFSA, and the frequency thereon (e.g. on an annual basis). Will it be possible for special audits to be performed on an event-driven basis at a short notice? Are audit planning and review approved by the board? {Art 11 (4) RTS CCP-II}

B.1.48 Specify whether the clearing operations, risk management processes, internal control mechanisms and accounts are subject to an independent audit. Furthermore, identify the frequency of such independent audits (e.g. annually). {Art 11 (5) RTS CCP-II}

B.1.49 *Will the governance arrangements, the rules governing the CCP and admission criteria for clearing be made available to the public? If yes, are they available at a cost or free of charge? {Art 26 (7) EMIR}*

B.1.50 *Please indicate the number of independent audits expected to be carried out by the CCP within a financial year. {Art 26 (8) EMIR}*

Senior Management and the Board

B.1.51 *Specify the amount of members on the board of directors. {Art 27 (2) EMIR}*

B.1.52 *Specify the number of independent board members therein. {Art 27 (2) EMIR}*

B.1.53 *Clarify whether the compensation of the independent and other non-executive members of the board, is linked to business performance. {Art 27 (2) EMIR}*

B.1.54 *Specify the roles and responsibilities of the board. {Art 27 (3) EMIR}*

B.1.55 *Clarify whether minutes of the board meetings will be kept on record. {Art 27 (3) EMIR}*

Risk Committee

B.1.56 *Specify whether there is an established risk committee. {Art 28 (1) EMIR}*

[Empty response box]

B.1.57 *Specify whether the management has any influence on the advice provided by the risk committee. {Art 28 (1) EMIR}*

[Empty response box]

B.1.58 *Briefly clarify the [i] mandate; [ii] governance arrangements; [iii] operational procedures; [iv] admission criteria; and [v] election mechanism, for risk-committee members. {Art 28 (2) EMIR}*

[Empty response box]

B.1.59 *Specify whether the governance arrangements will be made public. {Art 28 (2) EMIR}*

[Empty response box]

B.1.60 *Clarify whether the governance arrangements will determine, amongst others, that the risk committee [i] is chaired by an independent member of the board; [ii] reports directly to the board; and [iii] holds regular meetings. {Art 28 (2) EMIR}*

[Empty response box]

B.1.61 *Specify whether the governance arrangements will be made publicly available. {Art 28 (2) EMIR}*

[Empty response box]

B.1.62 *Clarify whether the risk committee will advise the board on any arrangements that may impact the applicant's risk management. {Art 28 (3) EMIR}*

[Empty response box]

B.1.63 *If Question B.1.56 was positively answered, will the risk committee inform the board about (tick where appropriate): {Art 28 (3) EMIR}*

- N/A;
- Significant changes in the risk model;
- Default procedures;

- Criteria for accepting clearing members;*
- Clearing of new classes of instruments;*
- The outsourcing of functions;*
- Other:*

Record Keeping

B.1.64 *Specify whether records will be kept in relation to the CCP services and activities to be provided. Please clarify, the details of such records to be held. {Art 29 (1) EMIR}*

B.1.65 *If Question B.1.64 was positively answered, specify the retention period of these records. {Art 29 (1) EMIR}*

B.1.66 *Specify whether all information is kept following a termination of contract, in relation to details on all contracts processed during that contract. If so, please specify the retention period for such records. {Art 29 (2) EMIR}*

B.1.67 *With regards to records kept, please specify whether: {Art 12 (1) RTS CCP - II}*

- *each key stage of the processing by the CCP may be reconstituted;*
- *the original content of a record before any corrections or other amendments may be recorded, traced and retrieved;*
- *measures to prevent unauthorised alteration of records are in place;*
- *security and confidentiality of the data recorded are ensured through appropriate measures;*
- *a mechanism for identifying and correcting errors is incorporated in the record keeping system;*

- *the timely recovery of the records in the case of a system failure is ensured within the record keeping system.*

B.1.68 *Where records or information are less than six months old, specify whether records will be readily available to be provided to the MFSA as soon as possible and at the latest by the end of the following business day following the MFSA’s request. {Art 12 (2) RTS CCP - II}*

B.1.69 *Where records or information are older than six months old, specify whether records will be readily available to be provided to the MFSA as soon as possible and within five (5) business days following the request from the MFSA. {Art 12 (3) RTS CCP - II}*

B.1.70 *Specify whether delegated persons within the applicant have been named in order to explain the contents of the applicant’s records to the MFSA. {Art 12 (6) RTS CCP - II}*

Transaction Records

B.1.71 *Explain whether records are maintained of all transactions in all contracts cleared and ensure that these records include all information necessary to conduct a comprehensive and accurate reconstruction of the clearing process for each contract and that each record on each transaction is uniquely identifiable and searchable at least by all fields concerning the applicant, interoperable CCP, clearing member, client, if known to the applicant, and financial instrument. {Art 13 (1) RTS CCP - II}*

B.1.72 *Identify which of the following records are kept updated, upon receiving each and every transaction for clearing: {Art 13 (2) RTS CCP - II}*

- (a) *the price, rate or spread and quantity;*

(b) the clearing capacity, which identifies whether the transaction was a buy or sale from the perspective of the CCP recording;

(c) the instrument identification;

(d) the identification of the clearing member;

(e) the identification of the venue where the contract was concluded;

(f) the date and time of interposition of the CCP;

(g) the date and time of termination of the contract;

(h) the terms and modality of settlement;

(i) the date and time of settlement or of buy-in of the transaction and to the extent they are applicable of the following details:

a. the day and the time at which the contract was originally concluded;

b. the original terms and parties of the contract;

c. the identification of the interoperable CCP clearing one leg of the transaction, where applicable;

d. the identity of the client, including any indirect client, where known to the CCP, and in case of a give-up, the identification of the party that transferred the contract.

| |
|--|
| |
|--|

Position Records

B.1.73 *Identify whether the applicant will be keeping a record of the following, in relation to each position: {Art 14 (2) RTS CCP - II}*

(a) the identification of the clearing member, of the client, if known to the applicant, and of any interoperable CCP maintaining such position, where applicable;

(b) *the sign of the position;*

(c) *the daily calculation of the value of the position with records of the prices at which the contracts are valued, and of any other relevant information.*

| |
|--|
| |
|--|

Business Records

B.1.74 *Please identify which of the following are included, each time a material change in the documents relating to business and internal organisation occurs:*

(a) *the organisational charts for the board and relevant committees, clearing unit, risk management unit, and all other relevant units or divisions;*

(b) *the identities of the shareholders or members, whether direct or indirect, natural or legal persons, that have qualifying holdings and the amounts of those holdings;*

(c) *the documents attesting the policies, procedures and processes required under general provision required under EMIR and the default fund requirement;*

(d) *the minutes of board meetings and, if applicable, of meetings of subcommittees of the board and of senior management committees;*

(e) *the minutes of meetings of the risk committee;*

(f) *the minutes of consultation groups with clearing members and clients, if any;*

(g) *internal and external audit reports, risk management reports, compliance reports, and reports by consultant companies, including management responses;*

(h) *the business continuity policy and disaster recovery plan, required under Article 34 of EMIR (Business Continuity Requirement);*

(i) *the liquidity plan and the daily liquidity reports, required under Article 44*

of EMIR (liquidity risk continuity requirement);

(j) records reflecting all assets and liabilities and capital accounts as required under Article 16 of EMIR (Capital Requirements);

(k) complaints received, with information on the complainant's name, address, and account number; the date the complaint was received; the name of all persons identified in the complaint; a description of the nature of the complaint; the disposition of the complaint, and the date the complaint was resolved;

(l) records of any interruption of services or dysfunction, including a detailed report on the timing, effects and remedial actions;

(m) records of the results of the back and stress tests performed;

(n) written communications with competent authorities, ESMA and the relevant members of the ESCB;

(o) legal opinions received in accordance with EMIR Default Fund Requirements;

(p) where applicable, documentation regarding interoperability arrangements with other CCPs;

(q) the law and rules governing the access to the applicant, the contracts concluded by the applicant with clearing members, the contracts that the applicant accepts for clearing, any interoperability arrangements, the use of collateral and default fund contributions including the liquidation of positions and collateral and the extent to which collateral is protected against third party claims, and a list of all current clearing members, including admission, suspension and exit criteria for clearing membership.;

(r) the relevant documents describing the development of new business initiatives.

{Art 15 (2) RTS CCP - II}

Records of Data Reported to a Trade Repository

B.1.75 *Provide evidence that all data required to be reported, as referred to in the Annex to ITS CCP, and in accordance with Article 9 of EMIR (on Reporting Obligations) is retained, along with a record of the date and time the transaction is reported. Such evidence should include {Art 16 (1) RTS CCP - II}*

[B.2] Shareholders and Members With Qualifying Holdings

B.2.1 *Specify the identity of all shareholders or members who have a qualifying shareholding, and the amounts held therein. {Art 30 (1) EMIR}*

B.2.2 *Clarify whether any close links exist between the applicant and any other legal or natural persons. {Art 30 (3) EMIR}*

[B.3] Conflicts of Interest

B.3.1 *Specify whether a written organisational and administrative arrangement is in place, in order to identify and manage any potential conflicts of interest between the applicant itself (which includes managers, employees or any person with direct or indirect control or close links) with its clients and clearing members. {Art 33 (1) EMIR}*

B.3.2 *Clarify whether the applicant is capable to disclose, to the clearing member, the general nature or sources of conflicts of interest when the organisational or administrative arrangement to manage such conflicts of interest are not sufficient. {Art 33 (2) EMIR}*

B.3.3 *If the applicant is a parent undertaking or a subsidiary, do the written arrangements also take into account circumstances which may give rise to a*

conflict of interest which arises as a result of the structure and business activities of other undertakings? {Art 33 (3) EMIR}

B.3.4 *Do the written arrangements include the following (tick as appropriate): {Art 33 (4) EMIR}*

The circumstances which constitute or may give rise to a conflict of interest entailing a material risk of damage to the interests of one or more clearing members or clients; and

Procedures to be followed and measures to be adopted in order to manage such conflict.

Other:

B.3.5 *Underline the measures taken to prevent any misuse of information held in the system and the prevention of the use of such information for other business activities. {Art 33 (5) EMIR}*

B.3.6 *Specify the measures in place to prevent natural persons who have close links to a CCP or a legal person that has a parent undertaking or a subsidiary relationship to use confidential information recorded, for any commercial purposes without the prior written consent of the client to whom such confidential information belongs to. {Art 33 (5) EMIR}*

[B.4] Business Continuity

B.4.1 *Specify whether a business continuity policy and disaster recovery plan is in place. {Art 34 (1) EMIR}*

B.4.2 *If Question B.4.1 above was positively answered, please specify whether such a plan provides for the recovery of all transactions at the time of disruption to allow*

the applicant to continue to operate with certainty and to complete settlement on the scheduled date. {Art 34 (1) EMIR}

B.4.3 *Specify whether procedures are in place to ensure the timely and orderly settlement or transfer of the assets and positions of clients and clearing members in the event of a withdrawal of authorisation from the Authority. {Art 34 (2) EMIR}*

Strategy and Policy

B.4.4 *Specify whether the business continuity policy and the disaster recovery plan will be subject to independent reviews and subsequently reported to the board. {Art 17 (1) RTS CCP - II}*

B.4.5 *Provide evidence that the business continuity policy identifies all critical business functions and related systems, and include the CCP's strategy, policy, and objectives to ensure the continuity of these functions and systems. {Art 17 (2) RTS CCP - II}*

B.4.6 *Explain whether the business continuity policy takes into account external links and interdependencies within the financial infrastructure including trading venues cleared by the CCP, securities settlement and payment systems and credit institutions used by the CCP or a linked CCP. Further specify whether it also takes into account critical functions or services which have been outsourced to third-party providers. {Art 17 (3) RTS CCP - II}*

B.4.7 *Clarify whether the business continuity policy and disaster recovery plan contains clearly defined and documented arrangements for use in the event of a business continuity emergency, disaster or crisis which are designed to ensure a minimum service level of critical functions. {Art 17 (4) RTS CCP - II}*

B.4.8 Clarify whether the disaster recovery plan identifies and includes recovery point objectives and recovery time objectives for critical functions and determines the most suitable recovery strategy for each of these functions. Explain whether these arrangements will be designed to ensure that in extreme scenarios critical functions are completed on time and that agreed service levels are met. {Art 17 (5) RTS CCP - II}

B.4.9 Explain whether the business continuity policy identifies the maximum acceptable time for which critical functions and systems may be unusable. Furthermore, identify the maximum recovery time for the applicant's critical functions to be included in the business continuity policy (e.g. 2 hours). The end of day procedures and payments shall be completed on the required time and day in all circumstances. {Art 17 (6) RTS CCP - II}

B.4.10 Is the potential overall impact on market efficiency taken into account when determining the recovery times for each function? {Art 17 (7) RTS CCP - II}

Business Impact Analysis

B.4.11 Explain whether a business impact analysis is conducted, designed to identify the business functions which are critical to ensure the CCP services of the applicant. The criticality of these functions to other institutions and functions in the financial infrastructure shall be part of the analysis. {Art 18 (1) RTS CCP - II}

B.4.12 Specify whether scenario based risk analysis is used in order to identify how various scenarios affect the risks to the organisation's critical business functions. {Art 18 (2) RTS CCP - II}

B.4.13 Please specify whether the organisation takes into account dependencies on external providers, including utility services, when assessing risks. {Art 18 (3) RTS CCP - II}

[Empty response box]

B.4.14 *Provide references to the procedures which indicate that business impact analysis and scenario analysis will be kept up to date, reviewed at least on an annual basis and follow an incident or significant organisational change. The analysis needs to take into account all relevant developments, including market and technology developments. {Art 18 (4) RTS CCP - II}*

[Empty response box]

Disaster Recovery

B.4.15 *Explain whether the disaster scenario arrangements shall address the availability of adequate human resources, the maximum downtime of critical functions, and fail over and recovery to a secondary site. {Art 19 (1) RTS CCP - II}*

[Empty response box]

B.4.16 *Does a secondary processing site exist, which would be capable of ensuring continuity of all critical functions of the applicant identical to the primary site? Is the secondary site geographically located distinctly from the primary site? {Art 19 (2) RTS CCP - II}*

[Empty response box]

B.4.17 *Provide evidence whether the CCP maintains immediate access to a secondary business site to allow staff to ensure continuity of the service if the primary location of business is not available. {Art 19 (3) RTS CCP - II}*

[Empty response box]

Testing and Monitoring

B.4.18 *Specify whether testing and monitoring of the business continuity policy and disaster recovery plan takes place, at regular intervals and after significant modifications or changes to the systems or related functions to ensure the business continuity policy achieves the stated objectives (including the 2 hour maximum recovery time objective). {Art 20 (1) RTS CCP - II}*

[Empty response box]

B.4.19 *Identify whether the following are used during the testing of the business continuity policy and disaster recovery plan (tick as necessary): {Art 20 (2) RTS CCP - II}*

(a) *scenarios of large scale disasters and switchovers between primary and secondary sites; and/or*

(b) *involvement of clearing members, external providers and relevant institutions in the financial infrastructure with which interdependencies have been identified in the business continuity policy.*

Other:

Maintenance

B.4.20 *Provide evidence that the organisation will regularly review and update its business continuity policy to include all critical functions and the most suitable recovery strategy. {Art 21 (1) RTS CCP - II}*

B.4.21 *Provide evidence that the organisation will regularly review and update its disaster recovery plan to include the most suitable recovery strategy for all critical functions. {Art 21 (2) RTS CCP - II}*

B.4.22 *Clarify whether the applicant will review the business continuity policy and disaster recovery plan after every significant disruption, to identify the causes and any required enhancements to its operations, business continuity policy and disaster recovery plan. {Art 21 (3) RTS CCP - II}*

Crisis Management

B.4.23 *Explain whether a crisis management function is in place to come into force in cases of an emergency. Further specify whether the board monitors the crisis*

management function and regularly receives and reviews reports on it. Please substantiate your answer by providing a copy of such written procedures. {Art 22 (1) RTS CCP - II}

B.4.24 *Provide references to the procedures to manage internal and external communications during a crisis event. {Art 22 (2) RTS CCP - II}*

B.4.25 *Following an event of crisis, specify whether the applicant undertakes any reviews of its crisis management, which might incorporate contributions from clearing members and other external stakeholders. {Art 22 (3) RTS CCP - II}*

Communication

B.4.26 *Provide us with copy of a communication plan, which should document the way in which the senior management, the board and relevant external stakeholders, including competent authorities, clearing members, clients, settlement agents, securities settlement and payment systems and trading venues, will be kept adequately informed during a crisis. In this regard please specify whether the scenario analysis, risk analysis, reviews and results of monitoring and tests shall be reported to the board. {Art 23 RTS CCP - II}*

[B.5] Outsourcing

B.5.1 *Does the applicant intend to outsource operational functions, services or activities? {Art 35 (1) EMIR}*

B.5.2 *If Question B.5.1 above was positively answered, clarify whether it is ensured that: {Art 35 (1) EMIR}*

a) *Outsourcing does not result in the delegation of the applicant's responsibility;*

- b) *The relationship and obligations of the applicant towards the clearing members and/or clients are not altered;*
- c) *The conditions for authorisation of the applicant do not effectively change;*
- d) *Outsourcing does not prevent the exercise of supervisory and oversight functions, including on-site access to acquire any relevant information needed to fulfil those mandates;*
- e) *Outsourcing does not result in depriving the applicant from the necessary systems and controls to manage the risks it faces;*
- f) *The service provider implements equivalent business continuity requirements to those that the applicant must fulfil under EMIR;*
- g) *The applicant retains the necessary expertise and resources to evaluate the quality of the services provided and the organisational and capital adequacy of the service provider, and to supervise the outsourced functions effectively and manage the risks associated with the outsourcing and supervises those functions and manages those risks on an on-going basis;*
- h) *The applicant has direct access to the relevant information of the outsourced functions;*
- i) *The service provider cooperates with the Authority in connection with the outsourced activities;*
- j) *The service provider protects any confidential information relation to the applicant and its clearing members and clients, or where that service provider is established in a third country, or those set out in the agreement between the parties concerned, are comparable to the data protection standards in effect in the European Union.*

Other:

B.5.3 *Clarify whether the applicant allocates and sets out its rights and obligations, and those of the service provider, clearly in a written agreement. {Art 35 (2) EMIR}*

[Redacted]

B.5.4 *Specify whether all information is available upon request in order to allow the MFSA to assess the compliance of the performance of the outsourced activities. {Art 35 (3) EMIR}*

[Redacted]

Section 2: Conduct of Business Rules

This section deals with the Conduct of business rules under EMIR as specified under articles 36-39.

[B.6] General Provisions

B.6.1 *Specify how the applicant ensures that it shall act fairly and professionally in accordance with the best interests of such clearing members and clients and sound risk management. {Art 36 (1) EMIR}*

B.6.2 *Clarify whether the applicant has accessible, transparent and fair rules for the prompt handling of complaints. {Art 36 (2) EMIR}*

[B.7] Participation Requirements

B.7.1 *Specify whether the applicant has established categories of admissible clearing members and admission criteria. {Art 37 (1) EMIR}*

B.7.2 *If Question B.7.1 was positively answered, please clarify whether this had been conducted on the advice of the risk committee. {Art 37 (1) EMIR}*

B.7.3 *Explain whether the applicant ensures that clearing members have sufficient financial resources and operational capacity to meet the obligations arising from their participation. {Art 37 (1) EMIR}*

B.7.4 *Specify whether the applicant has procedures in place to conduct, at least annually, a comprehensive review of compliance with points B.7.1 - B.7.3 above, by its clearing members. {Art 37 (2) EMIR}*

B.7.5 *Specify whether clearing members that clear transactions on behalf of their clients, will be supervised to have the necessary additional financial resources and operational capacity to perform such activities. {Art 37 (3) EMIR}*

B.7.6 *Clarify whether the applicant's rules for clearing members will allow the applicant to gather relevant basic information to identify, monitor and manage relevant concentrations of risk relating to the provision of services to clients. {Art 37 (3) EMIR}*

B.7.7 *Identify whether arrangements are in place to request clearing members to inform the CCP about the criteria and arrangements which they adopted to allow their clients to have access to the CCP's services. {Art 37 (3) EMIR}*

B.7.8 *Clarify whether procedures are in place for the suspension and orderly exit of clearing members, which no longer meet the criteria referred to in questions B.7.1-B.7.3. {Art 37 (4) EMIR}*

B.7.9 *Explain the methods used in order to restrict access to the applicant to clearing members. {Art 37 (5) EMIR}*

B.7.10 *Specify whether additional obligations on clearing members will be imposed (e.g. participation in auctions of a defaulting clearing member's position). {Art 37 (6) EMIR}*

B.7.11 *If Question B.7.10 was positively answered, specify whether such additional obligations are proportional to the risk brought by the clearing member and do not restrict participation to certain categories of clearing members. {Art 37 (6) EMIR}*

[B.8] Transparency

B.8.1 *Specify whether all prices and fees associated with the services provided by the CCP and clearing members, are publicly disclosed. {Art 38 (1) EMIR}*

B.8.2 *Further to Question B.8.1 above, are such prices and fees disclosed separately for each service provided, which include discounts and rebates and the conditions to benefit from such reductions. {Art 38 (1) EMIR}*

B.8.3 *Specify whether clearing members, and where relevant their clients, are allowed separate access to the specific services provided. {Art 38 (1) EMIR}*

B.8.4 *Further to Question B.8.3 above, will costs and revenues of the services provided, be separately accounted for, and disclosed to the MFSA? {Art 38 (1) EMIR}*

B.8.5 *Clarify whether the risks associated with the CCP services provided by the applicant, disclosed to its clearing members and clients. {Art 38 (2) EMIR}*

B.8.6 *Clarify whether the price information used to calculate the CCP's end-of-day exposures, will be disclosed to its clearing members and the MFSA. {Art 38 (3) EMIR}*

B.8.7 *Further to Question B.8.6, will the volumes of the cleared transaction for each class of instruments to be cleared (on an aggregated basis) by the applicant to be publicly disclosed? {Art 38 (3) EMIR}*

B.8.8 Clarify whether the operational and technical requirements relating to the communication protocols covering content and message formats used to interact with third parties, are publicly disclosed. {Art 38 (4) EMIR}

B.8.9 Clarify whether breaches by clearing members will be publicly disclosed (except in cases where the MFSA prohibits such disclosures if deemed as a threat to financial stability or market confidence). {Art 38 (5) EMIR}

[B.9] Segregation and Portability

B.9.1 Clarify whether separate records and accounts are held to distinguish between the assets and positions held for the account of one clearing member from the assets and positions held for the account of any other clearing member and from the applicant's own assets. {Art 39 (1) EMIR}

B.9.2 Describe whether the applicant has offered to keep separate records and accounts which allow each clearing member to distinguish its assets and positions from those held for the accounts of their clients ('omnibus client segregation'). {Art 39 (2) EMIR}

B.9.3 Describe whether the applicant has offered to keep separate records and accounts which allow each clearing member to distinguish the assets and positions held for the account of a client from those held for the account of other clients ('individual client segregation'). {Art 39 (3) EMIR}

B.9.4 Specify whether clearing members keep separate records and account that enable them to distinguish both in accounts held with the applicant and in their own accounts their assets and positions from the assets and positions held for the accounts of their clients at the CCP. {Art 39 (4) EMIR}

B.9.5 *Specify whether clearing members offer their clients the choice between omnibus client segregation and individual client segregation, and inform them of the costs and level of protection associated with each option. {Art 39 (4) EMIR}*

B.9.6 *Further to Question B.9.5, does the client confirm its choice in writing? {Art 39 (5) EMIR}*

B.9.7 *In cases where a client opts for individual client segregation, clarify whether any margins in excess of the client's requirements are posted to the applicant and distinguished from the margins of other clients or clearing members and are not exposed to losses connected to positions recorded in other accounts. {Art 39 (6) EMIR}*

B.9.8 *Specify whether CCPs and clearing members publicly disclose the levels of protection and the costs associated with the different levels of segregation which are provided. {Art 39 (7) EMIR}*

B.9.9 *Further to Question B.9.8 above, please provide evidence that these services are provided on reasonable commercial terms. You might wish to substantiate your answer by providing comparisons of such fees with other EU CCPs. {Art 39 (7) EMIR}*

B.9.10 *Specify whether the details of the different levels of segregation include a description of the main legal implications of the respective levels of segregation offered, which should also include information on the insolvency law in the relevant jurisdictions. {Art 39 (7) EMIR}*

B.9.11 *Clarify whether the CCP has a right of use relating to the margins or default fund contributions collected via a security financial collateral arrangement, provided*

that the use of such arrangements is provided for in the operating rules. {Art 39 (7) EMIR}

B.9.12 *Clarify whether clearing members are requested to confirm their acceptance of the operating rules in writing. {Art 39 (8) EMIR}*

B.9.13 *Please specify whether the following are used to distinguish assets and positions with the CCP in accounts (tick as appropriate): {Art 39 (9) EMIR}*

The assets¹ and positions are recorded in separate accounts;

The netting of positions recorded on different accounts is prevented; and

The assets covering the positions recorded in an account are not exposed to losses connected to positions recorded in another account.

¹ Assets refer to collateral held to cover positions and include the right to the transfer of assets equivalent to that collateral or the proceeds of the realisation of any collateral, but does not include default fund contributions.

Section 3: Prudential Requirements

This section deals with the prudential requirements in accordance with Articles 40-50 of EMIR.

[B.10] Exposure Management

B.10.1 *Clarify whether liquidity and credit exposures to each clearing members, and where relevant to other CCPs where interoperability arrangements have been concluded, are assessed and measured. {Art 40 EMIR}*

B.10.2 *Specify whether access is available to the relevant pricing sources to effectively measure exposures (access should be in a timely manner and on a non-discriminatory basis and on a reasonable cost basis). {Art 40 EMIR}*

[B.11] Margin Requirements

B.11.1 *Identify whether credit exposures are limited by imposing call and collect margins on clearing members, and where relevant from CCPs with which interoperability arrangements exist. {Art 41 (1) EMIR}*

B.11.2 *Specify whether such margins are sufficient to cover potential exposures that are estimated to occur until the liquidation of the relevant positions. {Art 41 (1) EMIR}*

B.11.3 *Further specify whether such margins are also sufficient to cover losses that result from at least 99% of the exposure movements over an appropriate time horizon and amongst others ensure that all exposures are fully collateralised with all clearing members, and where relevant with CCPs with which interoperability arrangements exist, at least on a daily basis. {Art 41 (1) EMIR}*

B.11.4 *Specify whether regular monitoring takes place to ensure that current market conditions are taking into account any potentially procyclical effects of such revisions. {Art 41 (1) EMIR}*

B.11.5 *Specify whether models and parameters are adopted in order to set margin requirements which capture the risk characteristics of the products cleared taking into account the interval between margin collections, market liquidity and the possibility of changes over the duration of the transaction. {Art 41 (2) EMIR}*

B.11.6 *Please provide us with the actual models and parameters, along with all the necessary explanations, referred to in Question B.11.5 above. {Art 41 (2) EMIR}*

B.11.7 *On what basis and frequency are margins called and collected (e.g. Intraday when thresholds are exceeded). {Art 41 (3) EMIR}*

B.11.8 *Specify whether the applicant will call and collect margins that are adequate to cover the risk stemming from the positions registered in each account kept in accordance with EMIR with respect to specific financial instruments. The applicant may calculate margins with respect to a portfolio of financial instruments provided that the methodology used is prudent and robust. {Art 41 (4) EMIR}*



MARGINS

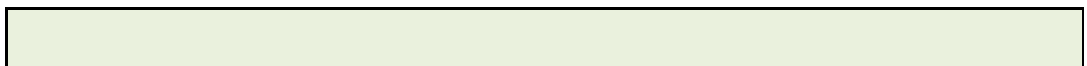
Percentage

B.11.9 *Specify whether initial margins calculated by the CCP, cover the exposures arising from market movements for each financial instrument that is collateralized on a product basis, over the time period defined in the section ‘Time Horizon For The Calculation Of Historical Volatility’ and assuming a time horizon for the liquidation of the position as defined in the section ‘Time Horizons For The Liquidation Period’ below. {Art 24 (1) RTS CCP - II}*



B.11.10 *For the calculation of initial margins, explain whether the following confidence intervals are respected: {Art 24 (1) RTS CCP - II}*

- (a) for OTC derivatives, 99.5%; and/or*
- (b) for financial instruments other than OTC derivatives, 99%.*



B.11.11 *For the determination of the adequate confidence interval for each class of financial instrument cleared, are the following factors considered:*

- (a) the complexities and level of pricing uncertainties of the class of financial instruments which may limit the validation of the calculation of initial and variation margin;*
- (b) the risk characteristics of the class of financial instruments, which can include, but are not limited to, volatility, duration, liquidity, non-linear price characteristics, jump to default risk and wrong way risk;*
- (c) the degree to which other risk controls do not adequately limit credit exposures; and/or*
- (d) the inherent leverage of the class of financial instruments, including whether the class of financial instrument is significantly volatile, is highly concentrated among a few market players or may be difficult to close out.*

{Art 24 (2) RTS CCP - II}

Time Horizon for the Calculation Of Historical Volatility

B.11.12 *Clarify whether the exposures resulting from historical volatility is based on data covering at least the latest 12 months. Furthermore, specify whether the data used for calculating historical volatility captures a full range of market conditions, including periods of stress.*

{Art 25 (1) RTS CCP - II}

B.11.13 *In relation to financial instruments having no historical observation period, are the margin parameters based on conservative assumptions? {Art 25 (3) RTS CCP - II}*

Time Horizons For The Liquidation Period

B.11.14 *The applicant shall define the time horizons for the liquidation period taking into account the characteristics of the financial instrument cleared, the market where it is traded, and the period for the calculation and collection of the margins. Explain whether these liquidation periods shall be at least:*

(a) five business days for OTC derivatives;

(b) two business days for financial instruments other than OTC derivatives.

{Art 26 (1) RTS CCP - II}

B.11.15 *In order to determine an adequate liquidation period, will the applicant take into account the following? {Art 26 (2) RTS CCP - II}*

(a) the longest possible period that may elapse from the last collection of margins up to the declaration of default by the CCP or activation of the default management process by the CCP;

(b) the estimated period needed to design and execute the strategy for the management of the default of a clearing member according to the particularities of each class of financial instrument, including its level of liquidity and the size and concentration of the positions, and the markets the CCP will use to close-out or hedge completely a clearing member position;

(c) where relevant, the period needed to cover the counterparty risk to which the CCP is exposed.

Other:

B.11.16 *Where a CCP clears OTC derivatives that have the same risk characteristics as derivatives executed on regulated markets or an equivalent third country market, it may use a time horizon for the liquidation period different from the one specified in paragraph 1, provided that it can demonstrate to its competent authority that:*

- (a) such time horizon would be more appropriate than that specified in paragraph in view of the specific features of the relevant OTC derivatives;*
- (b) such time horizon is at least two business days.*

Please confirm if this applies, and if yes, provide the necessary explanations.

{Art 26 (4) RTS CCP - II}

Portfolio Margining

B.11.17 *Specify whether documentation of the approach on portfolio margining is maintained and which includes reference to the fact that the correlation, or an equivalent statistical parameter of dependence, between two or more financial instruments cleared is shown to be reliable over the look-back period calculated in accordance with the calculation of historical volatility, and shows resilience during stressed historical or hypothetical scenarios. Can the applicant demonstrate the existence of an economic rationale for the price relation? {Art 27 (2) RTS CCP - II}*

B.11.18 *All financial instruments to which portfolio margining is applied shall be covered by the same default fund. By way of derogation, if a CCP can demonstrate in advance to its competent authority and to its clearing members how potential losses would be allocated among different default funds and has set out the necessary provisions in its rules, portfolio margining may be applied to financial instruments covered by different default funds. Please provide your comments in this regard. {Art 27 (3) RTS CCP - II}*

B.11.19 *Specify the amount of margin reductions in cases where portfolio margining covers multiple transactions. The answer should be in percentage form, in relation to the difference between the sum of the margins for each product calculated on an individual basis and the margin calculated based on a combined estimation of the exposure for the combined portfolio. {Art 27 (4) RTS CCP - II}*

B.11.20 *Please explain whether the margin reductions related to portfolio margining are subject to stress testing. {Art 27 (5) RTS CCP - II}*

Procyclicality

B.11.21 *Specify whether the CCP ensures that its policy for selecting and revising the confidence interval, the liquidation period and the lookback period, deliver a forward looking, stable and prudent margin requirement that limits procyclicality to the extent that the soundness and financial security of the CCP is not negatively affected. Amongst others further specify whether necessary precaution is taken to avoid disruptive or big step changes in margin requirements and establish transparent and predictable procedures for adjusting margin requirements in response to changing market conditions. {Art 28 (1) RTS CCP - II}*

B.11.22 *Specify whether any of the following options are applied [please select one of the following]:*

(a) *applying a margin buffer at least equal to 25% of the calculated margins which the CCP allows to be temporarily exhausted in periods where calculated margin requirements are rising significantly;*

(b) *assigning at least 25% weight to stressed observations in the look-back period calculated in accordance with the time horizons for the liquidation period;*

(c) *ensuring that the CCP's margin requirements are not lower than those that would be calculated using volatility estimated over a 10 year historical look-back period.*

{Art 28 (1) RTS CCP - II}

B.11.23 *Specify whether potential procyclical effects are taken into account when the revision of the margin model parameters takes place to better reflect market conditions at that point in time. {Art 28 (2) RTS CCP - II}*

[B.12] Default Fund

B.12.1 *Specify whether a pre-funded default fund is maintained to cover losses that exceed the losses to be covered by margin requirements arising from the default of one or more clearing members. {Art 42 (1) EMIR}*

B.12.2 *Specify the minimum amount of the size of the default fund, below which it shall never fall under any circumstance. {Art 42 (1) EMIR}*

B.12.3 *Specify whether models and parameters are adopted in order to set margin requirements which capture the risk characteristics of the products cleared taking into account the interval between margin collections, market liquidity and the possibility of changes over the duration of the transaction. {Art 42 (2) EMIR}*

B.12.4 *Clarify whether the default fund is capable to withstand the default of clearing members to which the largest exposures exist (first, second or third), even under extreme market conditions. Please substantiate your answer by clarifying how the scenarios of extreme (but plausible) market conditions have been created. The scenarios should include the most volatile periods that have been experienced by the markets for which services are provided and a range of potential future scenarios, and should also take into account sudden sales of financial resources and rapid reductions in market liquidity. {Art 42 (3) EMIR}*

Framework and governance

B.12.5 *Specify whether an internal policy framework has been developed and will be implemented to be able to define the types of extreme, but plausible, market conditions that could expose the applicant to greater risk. {Art 29 (1) RTS CCP - II}*

B.12.6 *Please specify whether the applicant defines what the extreme but plausible market conditions are in its framework. {Art 29 (2) RTS CCP - II}*

B.12.7 *Please specify whether the risk committee discusses the framework and thereon is approved by the board. {Art 29 (3) RTS CCP - II}*

B.12.8 *Further specify whether the robustness of the framework and its ability to reflect market movements shall be subject to annual reviews. {Art 29 (3) RTS CCP - II }*

Identifying Extreme But Plausible Market Conditions

B.12.9 *Explain whether the framework described in Questions B.12.5 to B.12.8 above, reflect the risk profile of the CCP, which would also take into account cross-border and cross-currency exposures where relevant. Your answer should be substantiated by providing evidence that this framework identifies all the market risks to which the CCP would be exposed following the default of one or more clearing members, including unfavourable movements in the market prices of cleared instruments, reduced market liquidity for such instruments, and declines in the liquidation value of collateral. Furthermore, please provide evidence that the framework also reflect additional risks to the CCP arising from the simultaneous failure of entities in the group of the defaulting clearing member. {Art 30 (1) RTS CCP - II }*

B.12.10 *When identifying all the markets to which the CCP is exposed to, in a scenario where a clearing member default occurs, please explain whether the extreme but plausible conditions are based on:*

- (a) a range of historical scenarios, including periods of extreme market movements observed over the past 30 years, or as long as reliable data have been available, that would have exposed the CCP to greatest financial risk. If a CCP decides that recurrence of a historical instance of large price movements is not plausible, it shall justify its omission from the framework to the competent authority; and/or*
- (b) a range of potential future scenarios, founded on consistent assumptions regarding market volatility and price correlation across markets and financial instruments, drawing on both quantitative and qualitative assessments of potential market conditions. {Art 30 (2) RTS CCP - II }*

B.12.11 *Provide evidence which depicts that the framework considers, both quantitatively and qualitatively, the extent to which extreme price movements could occur in multiple identified markets simultaneously. In this regard, this should also recognise that historical price correlations may breakdown in extreme but plausible market conditions. {Art 30 (3) RTS CCP - II }*

Reviewing Extreme But Plausible Scenarios

B.12.12 *Explain whether the procedures described in Questions B.12.9 to B.12.11 above are reviewed by the CCP on a regular basis. Such reviews should take into account all relevant market developments and the scale and concentration of clearing member exposures.*

Moreover, please specify whether the set of historical and hypothetical scenarios to be used by the applicant to identify extreme but plausible market conditions shall be reviewed by the CCP, in consultation with the risk committee, at least annually and more frequently when market developments or material changes to the set of contracts cleared by the CCP affect the assumptions underlying the scenarios and so require an adjustment to the scenarios. {Art 31 RTS CCP - II }

[B.13] Other Financial Resources

B.13.1 *Provide evidence which substantiate that sufficient pre-funded financial resources to be available to cover potential losses that exceed the losses to be covered by margin requirements and the default fund. Such pre-funded financial resources shall include dedicated resources which shall be freely available and shall not be used to meet the capital requirements. {Art 43 (1) EMIR}*

B.13.2 *Specify whether the default fund and other financial resources, are capable at all times, to withstand the default of at least the two clearing members to which largest exposures exist. {Art 43 (2) EMIR}*

[Redacted]

B.13.3 *Provide evidence that clearing members have limited exposures towards the CCP. {Art 43 (3) EMIR}*

[Redacted]

[B.14] Outsourcing

B.14.1 *Specify whether access to adequate liquidity at all times exists, in order to be able to perform the ongoing services and activities. {Art 44 (1) EMIR}*

[Redacted]

B.14.2 *Identify whether a provision is in place which stipulates that a clearing member, parent undertaking or subsidiary of that clearing member together do not provide more than 25% of the credit lines needed. {Art 44(1) EMIR}*

[Redacted]

B.14.3 *Specify the frequency of liquidity measurement, which amongst others will take into account the liquidity risk generated by the default of at least the two clearing members to which largest exposures exist. {Art 44 (1) EMIR}*

[Redacted]

Liquidity Risk Controls

Assessment of liquidity risk

B.14.4 *Provide evidence to allow the MFSA to determine that the applicant has a robust liquidity risk management framework which includes effective operational and analytical tools to identify, measure and monitor the organisation's settlement and funding flows on an on-going and timely basis, including its use of intraday liquidity. Moreover, demonstrate how the applicant will regularly assess the design and operation of the liquidity management framework, considering alongside the results of the stress tests.*
{Art 32 (1) RTS CCP - II }

B.14.5 *Demonstrate how the applicant's liquidity risk management framework is robust enough to ensure that the applicant is able to effect payment and settlement obligations in all relevant currencies as they fall due, including where appropriate intraday.*

Moreover, specify whether the liquidity risk management framework also includes the assessment of its potential future liquidity needs under a wide range of potential stress scenarios. Stress scenario need to include the default of clearing members according to Article 44 from the date of a default until the end of a liquidation period and the liquidity risk generated by the CCP's investment policy and procedures in extreme but plausible market conditions.
{Art 32 (2) RTS CCP - II }

B.14.6 *The liquidity risk management framework shall include a liquidity plan which is documented and retained in accordance with the article on penalties under EMIR. Specify whether the content of the liquidity plan includes the CCP's procedures for: {Art 32 (3) RTS CCP - II }*

(a) *managing and monitoring, at least on a daily basis, its liquidity needs across a range of market scenarios;*

(b) *maintaining sufficient liquid financial resources to cover its liquidity needs and distinguish among the use of the different types of liquid resources;*

(c) *the daily assessment and valuation of the liquid assets available to the CCP and its liquidity needs;*

(d) *identifying sources of liquidity risk;*

(e) *assessing timescales over which the CCP's liquid financial resources should be available;*

(f) *considering potential liquidity needs stemming from clearing members ability to swap cash for non-cash collateral;*

(g) *the processes in the event of liquidity shortfalls;*

(h) *the replenishment of any liquid financial resources it may employ during a stress event.*

Other:

B.14.7 *Explain whether the board would approve the above-mentioned plan following consultation with the risk committee.*
{Art 32 (3) RTS CCP - II }

B.14.8 *Explain whether the risk management framework shall address the liquidity needs stemming from the CCP's relationships with any entity towards which the CCP has a liquidity exposure including, (tick where appropriate):*

(a) settlement banks;

(b) payments systems;

(c) securities settlement systems;

(d) nostro agents;

(e) custodian banks;

(f) liquidity providers;

(g) interoperable CCPs;

(h) service providers.

{Art 32 (4) RTS CCP - II }

B.14.9 *Explain whether interdependencies between the applicant with any entities listed above, are taken into account in the liquidity risk management framework.*

{Art 32 (5) RTS CCP - II }

B.14.10 *Please explain whether daily reports are established on the needs and resources in relation to [i] managing and monitoring, at least on a daily basis, its liquidity needs across a range of market scenarios; [ii] maintaining sufficient liquid financial resources to cover its liquidity needs and distinguish among the use of the different types of liquid resources; and [iii] the daily assessment and valuation of the liquid assets available to the CCP and its liquidity needs.*
{Art 32 (6) RTS CCP - II }

B.14.11 *Please explain whether quarterly reports on the liquidity plan in relation to [i] identifying sources of liquidity risk; [ii] assessing timescales over which the CCP's liquid financial resources should be available; [iii] considering potential liquidity needs stemming from clearing members ability to swap cash for non-cash collateral; [iv] the processes in the event of liquidity shortfalls; and [v] the replenishment of any liquid financial resources it may employ during a stress event.*
{Art 32 (6) RTS CCP - II }

Access to liquidity

B.14.12 *With regards to the maintenance of adequate liquid resources in relation to the applicant's liquidity requirements, please specify whether other resources apart from the below-mentioned, are considered as being 'liquid resources':*

- (a) cash deposited at a central bank of issue;*
- (b) cash deposited at authorised credit institutions in accordance with Article 47 in Regulation (EU) No 648/2012;*
- (c) committed lines of credit or equivalent arrangements with non-defaulting clearing members;*
- (d) committed repurchase agreements; and/or*
- (e) highly marketable financial instruments that satisfy the requirements of Article 45 and Article 46 in Regulation (EU) No 648/2012 and that the CCP can demonstrate are readily available and convertible into cash on a same-day basis using prearranged and highly reliable funding arrangements, including in stressed market conditions.*

{Art 33 (1) RTS CCP - II }

B.14.13 Clarify the manner in which the applicant will be taking into account the potential effect of stressed conditions on its ability to access foreign exchange markets in a manner consistent with the securities settlement cycles of foreign exchange and securities settlement systems. {Art 33 (2) RTS CCP - II }

B.14.14 Specify the manner in which the applicant will be taking action to monitor and control concentration of liquidity risk exposures to individual liquidity providers. {Art 33 (3) RTS CCP - II }

B.14.15 Clarify the due diligence conducted on the applicant's liquidity providers, in relation to assessment of the capacity for them to perform according to the liquidity arrangements. {Art 33 (4) RTS CCP - II }

B.14.16 Specify whether tests periodically take place to assess the procedures to access pre-arranged funding arrangements. (e.g. drawing down test amounts of the commercial lines of credit, checking the speed of access to the resources and reliability of procedures.) {Art 33 (5) RTS CCP - II }

B.14.17 Identify whether detailed procedures are in place within the liquidity plan for using liquid financial resources to fulfil payment obligations during a liquidity shortfall. Amongst others, specify whether the liquidity procedures clearly state when certain resources should be used. Explain further whether the procedures also describe how to access cash deposits or overnight investments of cash deposits, how to execute same-day market transactions, or how to draw on prearranged liquidity lines. Also provide evidence to whether these procedures are regularly tested. Finally, is there a strategy to establish an adequate plan for the renewal of funding arrangements in advance of their expiration. {Art 33 (6) RTS CCP - II }

Concentration risk

B.14.18 *Explain whether the concentration of liquidity risk exposure, including exposures to the following entities [i] settlement banks; [ii] payments systems; [iii] securities settlement systems; [iv] nostro agents; [v] custodian banks; [vi] liquidity providers; [vii] interoperable CCPs; and [viii] service providers and entities in the same group, will be closely monitored and controlled. {Art 34 (1) RTS CCP - II }*

B.14.19 *Clarify whether the liquidity risk management framework includes the application of exposure and concentration limits. {Art 34 (2) RTS CCP - II }*

B.14.20 *Specify whether processes and procedures for breaches of concentration limits are defined. {Art 34 (3) RTS CCP - II }*

[B.15] Default Waterfall

B.15.1 *Confirm whether the margins posted by a defaulting clearing member will be used prior to other financial resources in covering losses. {Art 45 (1) EMIR }*

B.15.2 *Specify whether the default fund contribution of a defaulting member would be used where the margins posted by the defaulting clearing member are not sufficient to cover the losses incurred by the applicant. {Art 45 (2) EMIR }*

B.15.3 *Confirm whether the use of contributions to the default fund of the non-defaulting clearing members and any other financial resources would take effect only after having exhausted the contributions of the defaulting clearing member. {Art 45 (3) EMIR}*

B.15.4 *Please confirm whether the applicant's own resources would be used prior to the use of the default fund contributions of non-defaulting clearing members. {Art 45 (4) EMIR}*

Calculation of the amount of the CCP's own resources to be used in the default waterfall

B.15.5 *Will the applicant retain an amount of dedicated own resources, which are reported separately in its balance sheet in accordance with Art 45(4) of EMIR? {Art 35 (1) RTS CCP - II }*

B.15.6 *Does the applicant calculation of the minimum amount referred to in B.15.5 above arrived at as follows: minimum capital (including retained earnings and reserves as per art 16 of EMIR) x 25%? Also, are there procedures in place to revise this amount on a yearly basis? {Art 35 (2) RTS CCP - II }*

B.15.7 *Does the applicant have established more than one default fund for the different classes of financial instruments its clears? If yes, are the total dedicated own resources calculated under B.15.5 above allocated to each of the default funds in proportion to the size of each default fund and separately indicated in its balance sheet and used for defaults arising in the different market segments to which the default funds refer? {Art 35 (3) RTS CCP - II }*

B.15.8 *Please confirm that no other resources other than capital (including retained earnings and reserves), referred to in the article on capital requirements in EMIR are used to comply with the requirements of 6.4 above. {Art 35 (4) RTS CCP - II }*

Maintenance of the amount of the CCP's own resources to be used in the default waterfall

B.15.9 *Does the applicant have in place procedure to immediately inform the MFSA if the amount of dedicated own resources held, falls below the amount referred to in Section B.13 above? Does such notification require the applicant to include the reasons for the breach and a comprehensive description in writing of the measures and the time-table for the replenishment of such amount? {Art 36 (1) RTS CCP - II }*

B.15.10 *Does the applicant have procedures in place which stipulate that where a subsequent default (following the original default referred to in B.14.1 above) of one or more clearing members occurs before the applicant has reinstated the dedicated own resources, only the residual amount of the allocated dedicated own resources is used for the purpose of the default waterfall requirement under EMIR? {Art 36 (2) RTS CCP - II }*

B.15.11 *Do the CCP procedures require the reinstatement of the dedicated own resources at least within one month from the notification referred to in Question B.15.10 above? {Art 36 (3) RTS CCP - II }*

[B.16] Collateral Requirements

B.16.1 *Specify what types of collateral are accepted in relation to clearing members. {Art 46 (1) EMIR }*

B.16.2 *Specify what types of collateral are accepted in relation to non-financial counterparties. {Art 46 (1) EMIR}*

B.16.3 *Clarify whether adequate haircuts are applied to asset values that reflect the potential for their value to decline over the interval between their last revaluation and the time by which their last revaluation and the time by which they can reasonably be assumed to be liquidated. {Art 46 (1) EMIR}*

B.16.4 *Clarify whether the liquidity risk following the default of a market participant, and the concentration risk on certain assets that may result in establishing the acceptable collateral and the relevant haircuts, is taken into account. {Art 46 (1) EMIR}*

General requirements

B.16.5 *Does the applicant have in place transparent and predictable policies and procedures to assess and continuously monitor the liquidity of assets accepted as collateral and take remedial action where appropriate? Do these procedures require the applicant to review its eligible asset policies and procedures at least annually or whenever a material change occurs that affects the applicant's risk exposure? {Art 37 RTS CCP - II}*

Cash collateral

B.16.6 *Please confirm whether the applicant's highly liquid collateral in the form of cash is denominated in either (a) a currency for which the applicant can demonstrate to the competent authorities that it is able to adequately manage the risk; or (b) a currency in which the applicant clears transactions, in the limit of the collateral required to cover the applicant's exposures in that currency? {Art 38 RTS CCP - II}*

Financial instruments

B.16.7 *Do the highly liquid collaterals held by the CCP in the form of financial instruments, bank guarantees and gold? (in line with the conditions set out in Annex I of the RTS on the requirements for CCPs) {Art 39 RTS CCP - II}*

Valuing collateral

B.16.8 *Does the applicant have procedures in place to monitor, on a near to real, time basis the credit quality, market liquidity and price volatility of each asset accepted as a highly liquid collateral? Do these procedures require the applicant to review its eligible asset policies and procedures at least annually or whenever a material change occurs that affects the CCP's risk exposure? {Art 40 (1) RTS CCP - II}*

B.16.9 *Will the applicant mark-to-market its collateral on a near to real time basis? If not, does it have procedures in place which require the applicant to be in a position to demonstrate to the MFSA that it is able to manage the risks? {Art 40 (2) RTS CCP - II }*

Haircuts

B.16.10 *Does the applicant have established policies and procedures to determine prudent haircuts to apply to collateral value? {Art 41 (1) RTS CCP - II }*

B.16.11 *Is the applicant in a position to demonstrate that should there be the need for the collateral to be liquidated in stressed market conditions, whilst taking account of the time required for liquidation, haircuts are calculated in a conservative manner to limit as far as possible pro-cyclical effects? Do the applicant procedures require the determination of the haircut, for each collateral asset, to take into consideration the following criteria: (a) the type of asset and level of credit risk associated with the financial instrument based upon its own internal assessment? In performing such assessment does the CCP employ a defined and objective methodology that does not fully rely on external opinions and that takes into consideration the risk arising from the establishment of the issuer in a particular country; (b) the maturity of the asset; (c) the historical and hypothetical future price volatility of the asset in stressed market conditions; (d) the liquidity of the underlying market, including bid/ask spreads; (e) the foreign exchange risk, if any; (f) wrong-way risk? {Art 41 (2) RTS CCP - II }*

B.16.12 *Does the applicant have procedures in place to monitor on a regular basis the adequacy of the haircuts? Does it review the haircut policies and procedures at least annually and whenever a material change occurs that affects the CCP risk exposure, but at the same time avoid as far as possible disruptive or big step changes in haircuts that could introduce pro-cyclicality? Are there procedures in place that require the haircut policies and procedures to be independently validated at least annually {Art 41 (3) RTS CCP - II }*

Concentration limits

B.16.13 *Does the applicant have procedures in place to ensure that the collateral remains sufficiently diversified to allow its liquidation within a defined holding period without a significant market impact? Also do these policies and procedures determine the risk mitigation measures to be applied when the concentration limits referred to in B.16.14 below are exceeded? {Art 42 (7) RTS CCP - II }*

B.16.14 *Does the CCP determine the concentration limits at the level of: [i] individual issuers, [ii] type of issuer, [iii] type of asset, [iv] each clearing member, [v] all clearing members? Please provide details. {Art 42 (2) RTS CCP - II }*

B.16.15 *Are the concentration limits determined on the basis of a conservative approach which takes into account all relevant criteria, including: [i] financial instruments issued by issuers of the same type in terms of economic sector, activity and geographical region; [ii] the level of risk of the financial instrument or of the issuer based upon an internal assessment by the CCP, whilst employing a defined and objective methodology that is not fully reliant on external opinions and which takes into consideration the risk arising from the establishment of the issuer in a particular country; and also [iii] the liquidity and the price volatility of the financial instruments? {Art 42 (3) RTS CCP - II }*

B.16.16 *Please confirm that the applicant has no single credit institution, or equivalent third country financial institution, or an entity which is part of the same group as the credit institution or third country financial institution which provides guarantees of more than 10% of the CCP's collateral. However, if the collateral received by the CCP in the form of commercial bank guarantees is higher than 50% of the total collateral, this limit may be increased to 25%. {Art 42 (4) RTS CCP - II }*

B.16.17 *Does the CCP calculate the concentration limits referred to in B.16.14 above, to include the exposure of a CCP to an issuer, including the amount of the cumulative credit lines, certificates of deposit, time deposits, savings accounts, deposit account, current accounts, money-market instruments, and reverse repurchase facilities utilised by the CCP? Also, please confirm that these limits do not apply to collateral held by the CCP in excess of the minimum requirements for margins, default funds or other financial resources. {Art 42 (5) RTS CCP - II }*

B.16.18 *Does the CCP aggregate and treat as a single risk its exposure to all financial instruments issued by the issuer or by a group entity, explicitly guaranteed by the issuer or by a group entity, and to financial instruments issued by undertakings whose exclusive purpose is to own means of production that are essential for the issuer's business, when determining the concentration limit for a CCP's exposure? {Art 42 (6) RTS CCP - II }*

B.16.19 *Does the applicant have policies in place that require it to monitor on a regular basis the adequacy of its concentration limits at least on an annual basis and/or whenever a material change occurs that affects the risk exposure of the CCP? {Art 42 (7) RTS CCP - II }*

B.16.20 *Do (the CCP's) procedures require it to notify the MFSA and the clearing members of the applicable concentration limits of any amendment to these limits? {Art 42 (8) RTS CCP - II }*

B.16.21 *Do the CCP procedures require it to notify the MFSA whenever it materially breaches a concentration limit set out in its policies and procedures and to rectify the breach as soon as possible? {Art 42 (9) RTS CCP - II }*

[B.17] Investment Policy

B.17.1 *Describe where the financial resources will be invested. {Art 47 (1) EMIR}*

B.17.2 *Clarify whether the invested financial resources can be liquidated rapidly with minimal adverse price effects. {Art 47 (1) EMIR}*

B.17.3 *Specify where financial instruments posted as margins or as default fund contributions, are deposited. {Art 47 (3) EMIR}*

B.17.4 *Explain the process upon which cash deposits of the CCP are performed through. {Art 47 (4) EMIR}*

B.17.5 *Specify whether assets are deposited with a third party. {Art 47 (5) EMIR}*

B.17.6 *Further to Question B.17.5 above, please explain whether the assets belonging to the clearing members are identifiable separately from the assets belonging to the CCP and from assets belonging to that third party by means of differently titled accounts on the books of the third party or any other equivalent measures that achieve the same level of protection. Also specify whether prompt access to the financial instruments is present. {Art 47 (5) EMIR}*

B.17.7 *Describe where the financial resources will be invested. {Art 47 (5) EMIR}*

B.17.8 *Specify whether the capital, margin requirements, default fund, liquidity risk controls or other financial resources, are invested in the CCPs own securities or in any parent undertaking/subsidiary. {Art 47 (6) EMIR}*

B.17.9 *Clarify whether the overall credit risk exposures to individual obligors are taken into account when making investment decisions. {Art 47 (7) EMIR}*

B.17.10 *Clarify whether it is ensured that the overall risk exposure to any individual obligor remains within acceptable concentration limits. {Art 47 (7) EMIR}*

Highly liquid financial instruments

B.17.11 *Do the CCP procedures require it to notify the MFSA whenever it materially breaches a concentration limit set out in its policies and procedures and to rectify the breach as soon as possible? {Art 43 RTS CCP - II }*

Highly secured arrangements for the deposit of financial instruments

B.17.12 *In cases where the CCP is unable to deposit the financial instruments [refer to Art 45 – RTS CCP - II] or those posted to it as margins, default fund contributions or contributions to other financial resources, both by way of title transfer and security interest, with the operator of a securities settlement system that ensures the full protection of those instruments, then are such financial instruments deposited with any of the following:*

[i] a central bank that ensures the full protection of those instruments and that enables the CCP prompt access to the financial instruments when required;

[ii] an authorised credit institution as defined under the CRD (Directive 2006/48/EC) that ensures the full segregation and protection of those instruments, enables the CCP prompt access to the financial instruments when required and that the CCP can demonstrate that it has a low credit risk based upon an internal assessment by the CCP (the assessment performed on the basis of a defined objective methodology that does not fully rely on external opinions and that takes into consideration the risk arising from the establishment of the issuer in a particular country); and/or

[iii] a third country financial institution that is subject to and complies with prudential rules considered by the relevant competent authorities to be at least as stringent as those laid down in the CRD (Directive 2006/48/EC) and which has robust accounting practices, safekeeping and protection of those instruments, enables the CCP prompt access to the financial instruments when required and that the CCP can demonstrate to have low credit risk (the assessment performed on the basis of a defined objective methodology that does not fully rely on external opinions and that takes into consideration the risk arising from the establishment of the issuer in a particular country)? {Art 44 (1) RTS CCP - II }

B.17.13 *If the CCP's financial instruments are deposited in accordance with [ii] and [iii] above, are these held under arrangements that prevent any losses to the CCP due to the default or insolvency of the authorised financial institution? {Art 44 (2) RTS CCP - II }*

B.17.14 *Confirm whether in the case of highly secured arrangements for the deposit of financial instruments posted as margins, default fund contributions or contributions to other financial resources, allow the CCP to re-use the financial instruments only where the conditions in Article 39(8) of EMIR, in relation to segregation and portability, are met and where the purpose of the reuse is solely for making payments, managing the default of a clearing member or in the execution of an interoperable arrangement.*
{Art 44 (3) RTS CCP - II }

| |
|--|
| |
|--|

Highly secured arrangements maintaining cash

B.17.15 *Where cash is deposited other than with a central bank, please explain whether the following conditions are met:*

(a) the deposit is in one of the following currencies:

- a currency the risks of which the CCP can demonstrate with a high level of confidence that it is able to manage;*
- a currency in which the CCP clears transactions, in the limit of the collateral received in that currency;*

(b) the deposit shall be placed with one of the following entities:

- i. an authorised credit institution as defined under Directive 2006/48/EC that the CCP can demonstrate to have low credit risk based upon an internal assessment by the CCP. In performing such assessment the CCP shall employ a defined and objective methodology that shall not fully rely on external opinions and that takes into consideration the risk arising from the establishment of the issuer in a particular country;*
- ii. a third country financial institution that is subject to and complies with prudential rules considered by the competent authorities to be at least as stringent as those laid down in Directive 2006/48/EC of the European Parliament and of the Council and which has robust accounting practices, safekeeping procedures, and internal controls and that the CCP can demonstrate to have low credit risk based upon an internal based upon an internal assessment by the CCP. In performing such assessment the CCP shall employ a defined and objective methodology that shall not fully rely on external opinions and that takes into consideration the risk arising from the establishment of the issuer in a particular country;*

{Art 45 (1) RTS CCP - II }

| |
|--|
| |
|--|

B.17.16 *Where cash is maintained overnight specify whether at least 95% of such cash, calculated over an average period of one calendar month, shall be deposited through arrangements that ensure the collateralisation of the cash with highly liquid financial instruments meeting the requirements under Article 45, except the requirement at paragraph 1(c) of that Article.*
{Art 45 (2) RTS CCP - II }

Concentration Limits

B.17.17 *Specify whether the CCP has established and implement policies and procedures to ensure that the financial instruments in which its financial resources are invested remain sufficiently diversified.* {Art 45 (1) RTS CCP - II}

B.17.18 *Identify whether the CCP shall determine concentration limits and monitor the concentration of its financial resources at the level of:*
(a) *individual financial instruments;*
(b) *types of financial instruments;*
(c) *individual issuers;*
(d) *types of issuers;*
(e) *counterparties with which arrangements as provided for in points (b) and (c) of Article 44(1) or in Article 45(2) {RTS CCP - II} are established.*
{Art 45 (2) RTS CCP - II }

B.17.19 *When considering types of issuers does the CCP take into account any of the following:*
(a) *geographic distribution;*
(b) *interdependencies and multiple relationships that an entity may have with a CCP;*
(c) *the level of credit risk;*
(d) *exposures the CCP have to the issuer through products cleared by the CCP.*
{Art 45 (3) RTS CCP - II }

B.17.20 *Explain whether the policies and procedures determine the risk mitigation measures to be applied when the concentration limits are exceeded.* {Art 45 (4) RTS CCP - II }

B.17.21 *When determining the concentration limit for the CCP's exposure to an individual issuer or custodian, specify whether the CCP shall aggregate and treat as a single risk, the exposure to all financial instruments issued by, or explicitly guaranteed by, the issuer and all financial resources deposited with the custodian. {Art 45 (5) RTS CCP - II }*

B.17.22 *Clarify whether the CCP monitors on a regular basis the adequacy of its concentration limit policies and procedures. In addition, also explain whether the CCP reviews its concentration limit policy and procedure at least annually and whenever a material change occurs that affects the risk exposure of the CCP. {Art 45 (6) RTS CCP - II }*

B.17.23 *In cases where the CCP breaches a concentration limit set out in its policies and procedures, specify whether it will inform the MFSA immediately, and rectify the breach as soon as possible. Provide evidence accordingly. {Art 45 (7) RTS CCP - II }*

[B.18] Default Procedures

B.18.1 *Clarify whether detailed default procedures are in place, in cases where a clearing member does not comply with the participation requirements. Please substantiate your answer by providing evidence, in the form of annexes to this document. {Art 48 (1) EMIR}*

B.18.2 *Further to Question B.18.1 above, explain whether procedures have been established which will be followed in events of default of clearing members when undeclared by the CCP. {Art 48 (1) EMIR}*

B.18.3 *Specify the frequency of the reviewing of such procedures (e.g. semi-annually, annually etc...). {Art 48 (1) EMIR}*

B.18.4 *Specify how prompt action is taken to contain losses and liquidity pressures resulting from defaults. {Art 48 (2) EMIR}*

B.18.5 *Specify how it is ensured that the closing out of any clearing member's positions does not disrupt (the CCP's) operations or expose the non-defaulting clearing members to losses which they cannot anticipate or control. {Art 48 (2) EMIR}*

B.18.6 *Ensure whether the MFSA is promptly informed prior to triggering the default procedure. {Art 48 (3) EMIR}*

B.18.7 *Specify how the applicant verifies that its default procedures are enforceable. In this regard specify how all reasonable steps are taken to ensure the legal powers to liquidate the proprietary positions of the defaulting clearing member and to transfer or liquidate the clients' positions of the defaulting clearing member. {Art 48 (4) EMIR}*

B.18.8 *In cases where assets and positions are recorded in the records and accounts of the CCP as being held for the account of a defaulting clearing member's clients, please specify whether the CCP contractually commits itself to trigger the procedures for the transfer of the assets and positions held by the defaulting clearing member for the account of its clients to another clearing member designated by all of those clients, on their request and without the consent of the defaulting clearing member. Also, that other clearing member are obliged to accept those assets and positions only where it has previously entered into a contractual relationship with the clients by which it has committed itself to do so. If the transfer to that other clearing member has not taken place for any reason within a predefined transfer period specified in its operating rules, confirm whether the CCP may take all steps permitted by its rules to actively manage its risks in relation to those positions, including liquidating the assets and positions including liquidating the assets and positions held by the defaulting clearing member for the account of its clients. {Art 48 (5) EMIR}*

B.18.9 *Specify whether a contractual commitment exists to trigger the procedures for the transfer of the assets and positions held by a defaulting clearing member for the account of the client to another clearing member designated by the client, on the client's request and without the consent of the defaulting clearing member, in cases where assets and positions are recorded in the records and accounts of the CCP as being held for the account of a defaulting clearing member's client. Also, other clearing members are obliged to accept these asset and positions only where it has previously entered into a contractual relationship with the client by which it has committed itself to do so. If the transfer to that other clearing member has not taken place for any reason within a predefined transfer period specified in its operating rules, the applicant may take all steps permitted by its rules to actively manage its risks in relation to those positions, including liquidating the assets and positions held by the defaulting clearing member for the account of the client. {Art 48(6) EMIR}*

B.18.10 *Specify whether clients' collateral which is distinguished either through an omnibus client segregation or an individual client segregation, is used exclusively to cover the positions held for their account. Explain further whether any balance owed by the CCP after the completion of the clearing member's default management process by the CCP will be readily returned to those clients when they are known to the CCP or, if they are not, to the clearing member for the account of its clients. {Art 48 (7) EMIR}*

[B.19] Review of Models, Stress Testing and Back Testing

B.19.1 *Describe whether the models and parameters adopted to calculate margin requirements, default fund contributions, collateral requirements and other risk control mechanisms, are regularly reviewed. Furthermore, explain whether the models are subject to rigorous and frequent stress tests to assess their resilience in extreme but plausible market conditions and back tests are performed to assess the reliability of the methodology adopted. {Art 49 (1) EMIR}*

B.19.2 *Clarify whether independent validation is obtained. Also specify whether the MFSA and ESMA will be informed of the results of the tests performed. Further also specify the validation would be obtained before adopting any significant change to the models and parameters. {Art 49 (1) EMIR}*

B.19.3 *Clarify whether the key aspects of the default procedures are regularly tested and whether all reasonable steps are taken to ensure that clearing members understand them and have appropriate arrangements in place to respond to a default event. {Art 49(2) EMIR}*

B.19.4 *Specify whether the key information on the risk-management model and assumptions adopted to perform stress tests are publicly disclosed. {Art 49 (3) EMIR}*

Models and Programmes

Model Validation

B.19.5 *Provide evidence that the applicant has procedures in place to conduct a comprehensive validation of its models, methodologies and the liquidity risk management framework used to quantify, aggregate, and manage its risks. In this regard specify whether any material revisions or adjustments to the CCP's models, methodologies and liquidity risk management framework are subject to appropriate governance, including seeking advice from the risk committee, and validated by a qualified and independent party prior to application. {Art 47 (1) RTS CCP - II}*

B.19.6 *Explain whether the applicant's validation process is documented and at least specifies the policies used to test the CCP's margin, default fund and other financial resources methodologies and framework for calculating liquid financial resources. Further specify whether any material revisions or adjustments to such policies shall be subject to appropriate governance, including seeking advice from the risk committee, and validated by a qualified and independent party prior to application. {Art 47 (2) RTS CCP - II}*

B.19.7 *Identify which of the following are included in the model validation:*

- (a) an evaluation of the conceptual soundness of the models and framework, including developmental supporting evidence;*
- (b) a review of the on-going monitoring procedures, including verification of processes and benchmarking;*
- (c) a review of the parameters and assumptions made in the development of its models, their methodologies and the framework;*
- (d) a review of the adequacy and appropriateness of the models, their methodologies and framework adopted in respect of the type of contracts they apply to;*
- (e) a review of the appropriateness of its stress testing scenarios, as aforementioned;*
- (f) an analysis of the outcomes of testing results. {Art 47 (3) RTS CCP - II}*

B.19.8 *Please provide documentation of the criteria against which the applicant assesses whether its models, methodologies and liquidity risk management framework can be successfully validated. The criteria need to include successful testing results. {Art 47 (4) RTS CCP - II}*

B.19.9 *Where pricing data is not readily available or reliable, clarify whether the CCP addresses such pricing limitations and, at least, adopt conservative assumptions based on observed correlated or related markets and current behaviours of the market. {Art 47 (5) RTS CCP - II}*

B.19.10 *Where pricing data is not readily available or reliable, clarify whether the systems and valuation models used for this purpose are subject to appropriate governance, including seeking advice from the risk committee, and validation and testing. Furthermore, explain whether the CCP has its valuation models validated under a variety of market scenarios by a qualified and independent party to ensure that its models accurately produces appropriate prices, and where appropriate, adjust its calculation of initial margins to reflect any identified model risk. {Art 47 (6) RTS CCP - II}*

B.19.11 *Explain whether the CCP will be regularly conducting an assessment of the theoretical and empirical properties of its margin model for all the financial instruments that it clears. {Art 47 (7) RTS CCP - II}*

Testing programmes

B.19.12 *Clarify whether the CCP has in place policies and procedures that detail the stress and back testing programmes it undertakes to assess the appropriateness, accuracy, reliability and resilience of the models and their methodologies used to calculate its risk control mechanisms including margin, default fund contributions, and other financial resources in a wide range of market conditions. {Art 48 (1) RTS CCP - II}*

B.19.13 *Also provide evidence whether the applicant's policies and procedures detail the stress testing programme it undertakes to assess the appropriateness, accuracy, reliability and resilience of the liquidity risk management framework. {Art 48 (2) RTS CCP - II}*

B.19.14 *Detail whether the policies and procedures also include at least methodologies for the inclusion of the selection and development of appropriate testing, including portfolio and market data selection, the regularity of the tests, the specific risk characteristics of the financial instruments cleared, the analysis of testing results and exceptions and the relevant corrective measures needed. {Art 48 (3) RTS CCP - II}*

B.19.15 *Explain whether any client positions are included when performing all tests. {Art 48 (4) RTS CCP - II}*

Back Testing
Back testing procedure

B.19.16 *Explain whether margin coverage is assessed by performing an ex-post comparison of observed outcomes with expected outcomes derived from the use of margin models. Please note that such back testing analysis needs to be performed each day in order to evaluate whether there are any testing exceptions to margin coverage. In this regard please explain whether the coverage will be evaluated on current positions for financial instruments, clearing members and take into account possible effects from portfolio margining and, where appropriate, interoperable CCPs. {Art 49 (1) RTS CCP - II}*

B.19.17 *Does the applicant consider the appropriate historical time horizons for its back testing programme to ensure that the observation window used is sufficient enough to mitigate any detrimental effect on the statistical significance? {Art 49 (2) RTS CCP - II}*

B.19.18 *Clarify whether in the applicant's back testing programme, clear statistical tests, and performance criteria are defined by CCPs for the assessment of back testing results. {Art 49 (3) RTS CCP - II}*

B.19.19 *Provide evidence whether the CCP will periodically be reporting its back testing results and analysis to the risk committee in order to seek their advice in the review of its margin model. {Art 49 (4) RTS CCP - II}*

B.19.20 *Specify whether the back testing results and analysis are made available to all clearing members and, where known to the CCP, clients. Explain further, whether upon request, the relevant clearing members shall make available, for all other clients, the back testing results and analysis. Such information shall be aggregated in a form that does not breach confidentiality and clearing members and clients shall only have access to detailed back testing results and analysis for their own portfolios. {Art 49 (5) RTS CCP - II}*

B.19.21 *Does the applicant define the procedures to detail the actions it could take given the results of back testing analysis. {Art 49 (6) RTS CCP - II}*

Sensitivity testing and analysis
Sensitivity testing and analysis procedure

B.19.22 *Specify whether the CCP conducts sensitivity tests and analysis to assess the coverage of its margin model under various market conditions using historical data from realised stressed market conditions and hypothetical data for unrealised stressed market conditions. {Art 50 (1) RTS CCP - II}*

B.19.23 *Explain whether the CCP makes use of a wide range of parameters and assumptions to capture a variety of historical and hypothetical conditions, including the most-volatile periods that have been experienced by the markets it serves and extreme changes in the correlations between prices of contracts cleared by the CCP, in order to understand how the level of margin coverage might be affected by highly stressed market conditions and changes in important model parameters. {Art 50 (2) RTS CCP - II}*

B.19.24 Clarify whether sensitivity analysis will be performed on a number of actual and representative clearing member portfolios. Provide evidence that the representative portfolios shall be chosen based on their sensitivity to the material risk factors and correlations to which the CCP is exposed. Please ensure that such sensitivity testing and analysis shall be designed to test the key parameters and assumptions of the initial margin model at a number of confidence intervals to determine the sensitivity of the system to errors in the calibration of such parameters and assumptions. Portray that appropriate consideration will be given to the term structure of the risk factors, and the assumed correlation between risk factors. {Art 50 (3) RTS CCP - II}

B.19.25 Clarify whether the applicant evaluates the potential losses in clearing member positions. {Art 50 (4) RTS CCP - II}

B.19.26 Explain whether the applicant considers parameters reflective of the simultaneous default of clearing members that issue financial instruments cleared by the CCP or the underlying of derivatives cleared by the CCP. Where applicable, the effects of a client's default that issues financial instruments cleared by the CCP or the underlying of derivatives cleared by the CCP shall also be considered. {Art 50 (5) RTS CCP - II}

B.19.27 Explain whether the applicant will be periodically reporting its sensitivity testing results and analysis to the risk committee in order to seek its advice in the review of its margin model. {Art 50 (6) RTS CCP - II }

B.19.28 Specify whether the applicant has defined the procedures to detail the actions it could take given the results of sensitivity testing analysis. {Art 50 (7) RTS CCP - II}

Stress Testing
Stress Testing Procedure

B.19.29 *Explain whether the applicant's stress tests applies stressed parameters, assumptions, and scenarios to the models used for the estimation of risk exposures to make sure its financial resources are sufficient to cover those exposures under extreme but plausible market conditions. {Art 51 (1) RTS CCP - II}*

B.19.30 *Specify whether the applicant's stress testing programme requires the CCP to conduct a range of stress tests on a regular basis that shall consider the CCP's product mix and all elements of its models and their methodologies and its liquidity risk management framework. {Art 51 (2) RTS CCP - II}*

B.19.31 *Provide evidence that the applicant's stress testing programme prescribes that stress tests are performed, using defined stress testing scenarios, on both past and hypothetical extreme but plausible market conditions in accordance with EMIR requirement on default funds. Furthermore please explain whether past conditions used shall be reviewed and adjusted, where appropriate. Lastly, does the CCP also consider other forms of appropriate stress testing scenarios including, but not limited to, the technical or financial failure of its settlement banks, nostro agents, custodian banks, liquidity providers, or interoperable CCPs. {Art 51 (3) RTS CCP - II}*

B.19.32 *Does the applicant have the capacity to adapt its stress tests quickly to incorporate new or emerging risks? {Art 51 (4) RTS CCP - II}*

B.19.33 *Explain whether the applicant considers the potential losses arising from the default of a client, where known, which clears through multiple clearing members. {Art 51 (5) RTS CCP - II}*

B.19.34 *Specify whether the CCP periodically reports its stress testing results and analysis to the risk committee in order to seek its advice in the review of its models, its methodologies and its liquidity risk management framework. {Art 51 (6) RTS CCP - II}*

B.19.35 *Are stress testing results and analysis made available to all clearing members and, where known to the CCP, clients? In this regard, for all other clients, back testing results and analysis need to be made available by the relevant clearing members on request. Such information is required to be aggregated in a form that does not breach confidentiality and clearing members and clients shall only have access to detailed stress testing results and analysis for their own portfolios. {Art 51 (7) RTS CCP - II}*

B.19.36 *Highlight whether the CCP has defined procedures which detail the actions it could take given the results of stress testing analysis. {Art 51 (8) RTS CCP - II}*

Risk factors to stress test

B.19.37 *Specify whether the applicant identifies, and have an appropriate method for measuring, relevant risk factors specific to the contracts it clears that could affect its losses. Amongst others does the CCP, take into account risk factors specified for the following type of financial instruments? (Tick where applicable):*

- a) *interest rate related contracts: risk factors corresponding to interest rates in each currency in which the CCP clears financial instruments. The yield curve modelling shall be divided into various maturity segments in order to capture variation in the volatility of rates along the yield curve. The number of related risk factors shall depend on the complexity of the interest rate contracts cleared by the CCP. Basis risk, arising from less than perfectly correlated movements between government and other fixed-income interest rates, shall be captured separately.*
- b) *exchange rate related contracts: risk factors corresponding to each foreign currency in which the CCP clears financial instruments and to the exchange rate between the currency in which margin calls are made and the currency in which the CCP clears financial instruments.*
- c) *equity related contracts: risk factors corresponding to the volatility of individual equity issues for each of the markets cleared by the CCP and to the volatility of various sectors of the overall equity market. The sophistication and nature of the modelling technique for a given market shall correspond to the CCP's exposure to the overall market as well as its concentration in individual equity issues in that market.*
- d) *commodity contracts: risk factors that take into account the different categories and sub-categories of commodity contracts and related derivatives cleared by the CCP, including, where appropriate, variations in the convenience yield between derivatives positions and cash positions in the commodity.*
- e) *credit related contracts: risk factors that consider jump to default risk, including the cumulative risk arising from multiple defaults, basis risk and recovery rate volatility.*

{Art 52 (1) RTS CCP - II}

| |
|--|
| |
|--|

B.19.38 *During its stress tests, does the CCP give appropriate consideration to any of the following (tick where appropriate) {Art 52 (2) RTS CCP - II}:*

- a) *correlations, including those between identified risk factors and similar contracts cleared by the CCP;*
- b) *factors corresponding to the implied and historical volatility of the contract being cleared;*
- c) *specific characteristics of any new contracts to be cleared by the CCP;*
- d) *concentration risk, including to a clearing member, and group entities of clearing members;*
- e) *interdependencies and multiple relationships;*
- f) *relevant risks including foreign exchange risk;*
- g) *set exposure limits;*
- h) *wrong-way risk.*

Other:

Stress testing total financial resources

B.19.39 *Explain whether the applicant's stress-testing programme ensures that its combination of margin, default fund contributions and other financial resources are sufficient to cover the default of at least the two clearing members to which it has the largest exposures under extreme but plausible market conditions. Further highlight whether the stress testing programme also examines potential losses resulting from the default of entities in the same group as the two clearing members to which it has the largest exposures under extreme but plausible market conditions. {Art 53 (1) RTS CCP - II}*

B.19.40 *Specify if the stress-testing programme ensures that its margins and default fund are sufficient to cover at least the default of the clearing member to which it has the largest exposures or of the second and third largest clearing members, if the sum of their exposures is larger in accordance with Article 42 of Regulation (EU) No 648/2012. {Art 53 (2) RTS CCP - II }*

B.19.41 *Will the applicant be conducting a thorough analysis of the potential losses it could suffer and evaluate the potential losses in clearing member positions, including the risk that liquidating such positions could have an impact on the market and the CCP's level of margin coverage. {Art 53 (3) RTS CCP - II }*

B.19.42 *Explain whether the CCP considers in its stress tests, the effects of the default of a clearing member that issues financial instruments cleared by the CCP or the underlying of derivatives cleared by the CCP. Where applicable, the effects of a client's default that issues financial instruments cleared by the CCP or the underlying of derivatives cleared by the CCP would also be considered. {Art 53 (4) RTS CCP - II }*

B.19.43 *Confirm that the CCP's stress tests also consider the liquidation period as provided for in the time horizons for the liquidation period as specified under the EMIR margin requirements. {Art 53 (5) RTS CCP - II }*

Stress testing liquid financial resources

B.19.44 *Explain whether the CCP's stress-testing programme of its liquid financial resources ensures that such resources are sufficient and in accordance with the requirements laid down in Chapter VIII (Liquidity Risk Controls – RTS CCP - II). {Art 54 (1) RTS CCP - II }*

B.19.45 *Does the applicant have clear and transparent rules and procedures to address insufficient liquid financial resources highlighted by its stress tests to ensure settlement of payments obligations?*

Please also specify whether the CCP has clear procedures for using the results and analysis of its stress tests to evaluate and adjust the adequacy of its liquidity risk management framework and liquidity providers. {Art 54 (2) RTS CCP - II}

B.19.46 *Explain whether the stress testing scenarios used in the stress testing of liquid financial resources consider the design and operation of the CCP, and include all entities that might pose material liquidity risk to it. Also specify whether such stress tests consider any strong linkages or similar exposures between its clearing members, including other entities that are part of the same group, and assess the probability of multiple defaults and the contagion effect among its clearing members that such defaults may cause. {Art 54 (3) RTS CCP - II}*

Maintaining sufficient coverage

B.19.47 *Does the applicant have in place procedures to recognise changes in market conditions, including, increases in volatility or reductions in the liquidity of the financial instruments it clears (this procedure would be required to promptly adapt calculations of its margin requirement to appropriately account for the new market conditions)? {Article 55(1) RTS CCP - II}*

B.19.48 *Does the applicant have procedures which require it to conduct tests on its haircuts in order to ensure that collateral can be liquidated at least at its haircutted value in observed and extreme but plausible market conditions? {Article 55(2) RTS CCP - II}*

B.19.49 *In case the CCP collects margin at a portfolio, as opposed to product level, does it review and test offsets among products on a continuous basis? Moreover, does the CCP base such offsets on prudent and economically meaningful methodology that reflects the degree of price dependence between the products? In particular, does the CCP have procedures which require it to test how correlations perform during periods of actual and hypothetical severe market conditions? {Article 55(3) RTS CCP - II}*

Review of models using test results

B.19.50 *Please indicate whether the CCP's procedures with respect to the requirement to determine the amount of additional margin it may need to collect, (including on an intraday basis and to recalibrate its margin model) where back testing indicates that the model did not perform as expected with the result that it does not identify the appropriate amount of initial margin necessary to achieve the intended level of confidence. Also indicate whether the procedures stipulate that it is necessary to call additional margin the CCP is required to do so by the next margin call? {Article 56(1) RTS CCP - II}*

B.19.51 *Do the CCP procedures require an evaluation of the source of testing exceptions highlighted by its back tests? In this regard, depending on the source of the exceptions, do the CCP procedures require it to determine whether a fundamental change to the margin model, or to the models that input into it, is required and whether the recalibration of current parameters is necessary? Please support by providing reference to the relevant procedures. {Article 56(2) RTS CCP - II}*

B.19.52 *Does the CCP evaluate the sources of testing exceptions which are highlighted by its stress tests? Explain the manner in which the CCP would determine whether a fundamental change to its models, their methodologies or its liquidity risk management framework is required or if the recalibration of current parameters or assumptions is necessary, on the basis of the sources of exceptions? {Article 56(3) RTS CCP - II}*

B.19.53 *In the case that the test results show an insufficient coverage of margin, default fund or other financial resources, do the applicant procedures establish that it is required to increase the overall coverage of its financial resources to an acceptable level by the next margin call? Does the same requirement apply to indicated insufficient liquid financial resources as is practicable? {Article 56(4) RTS CCP - II}*

B.19.54 *Do the applicant's procedures require it to consider the frequency of reoccurring testing exceptions to identify and resolve issues appropriately and without undue delay? {Article 56(5) RTS CCP - II}*

Reverse Stress Tests

B.19.55 *Do the applicant's procedures require to carry out reverse stress tests designed to identify under which market conditions the combination of its margin, default fund and other financial resources may provide insufficient coverage of credit exposures and for which its liquid financial resources may be insufficient? In conducting such tests, is the CCP required, as per its procedures, to model extreme market conditions that go beyond what are considered plausible market conditions, in order to determine the limits of its models, its liquidity risk management framework, its financial resources and its liquid financial resources? {Article 57(1) RTS CCP - II}*

B.19.56 *Please confirm that the CCP has developed reverse stress tests which are tailored to the specific risks of the markets and of the contracts that it provides clearing services for? Explain the basis for your reply. {Article 57(2) RTS CCP - II}*

B.19.57 *Does the CCP use the conditions identified in 10.55 above and the results and analysis of its reverse stress tests to help it in identifying extreme but plausible scenarios in accordance with the above section on Default Funds? {Article 57(3) RTS CCP - II}*

B.19.58 *Confirm whether the applicant's procedures establish a periodical reporting requirement, to the risk committee, of its reverse stress testing results which includes an analysis, in a form that does not breach confidentiality and which seeks the committee's advice in its review. {Article 57(4) RTS CCP - II}*

Default Procedures

Testing default procedures

B.19.59 *Do the applicant's procedures require testing and reviewing of its default procedures to ensure that they are both practical and effective, also by carrying out simulation exercises? {Article 58(1) RTS CCP - II}*

B.19.60 *Do the applicant procedures have in place the requirement that following the above testing, any uncertainties are identified and appropriately adapt its procedures to mitigate such uncertainty? {Article 58(2) RTS CCP - II}*

B.19.61 *The applicant is expected that through the conduct of the above mentioned simulation exercises, it verifies that all clearing members, where appropriate, clients and other relevant parties including interoperable CCP's and any related service providers, are duly informed and know the procedures involved in a default scenario. Please confirm whether this is included in its procedures. {Article 58(4) RTS CCP - II}*

Validation and Testing Procedures

Frequency

B.19.62 Do the CCP procedures require the following activities:

[i] On at least an annual basis:

- *a comprehensive validation of its models and their methodologies;*
- *a comprehensive validation of its liquidity risk management framework;*
- *conduct a full validation of its valuation models;*
- *review the appropriateness of the Stress Testing policies specified;*
- *test offsets among financial instruments and how correlations perform during periods of actual and hypothetical severe market conditions;*
- *performing simulation exercises (or following any material change to its default procedures);*

[ii] On at least a daily basis:

- *analyse and monitor its model performance and financial resources coverage in the event of defaults by back testing margin coverage;*
- *conducting stress testing using standard and predetermined parameters and assumptions;*
- *analyse and monitor its liquidity risk management framework by conducting stress tests of its liquid financial resources;*

[iii] On at least a monthly basis:

- *conduct a detailed thorough analysis of testing results in order to ensure its stress testing scenarios, models and liquidity risk management framework, underlying parameters and assumptions are correct. (Such analysis shall be conducted more frequently in stressed market conditions, including when the financial instruments cleared or markets served in general display high volatility, become less liquid, or when the size or concentrations of positions held by its clearing members increase significantly or when it is anticipated that a CCP will encounter stressed market conditions.);*
- *conduct sensitivity analysis, using the results of sensitivity tests. (This analysis should be conducted more frequently when markets are unusually volatile or less liquid or when the size or concentrations of positions held by its clearing members increase significantly);*
- *test CCP haircuts;*

[iv] On at least a quarterly basis:

- *conduct reverse stress tests;*
- *test and review its default procedures;*

{Article 59 (1) – (12) RTS CCP - II}



The Time Horizons

B.19.63 *Please confirm whether the time horizons used for stress tests are defined in accordance with the section of the Default Fund, and that it includes forward-looking extreme but plausible market conditions? {Article 60(1) RTS CCP - II}*

B.19.64 *Please confirm whether the historical time horizons used for back tests include data from as a minimum the most recent year or as long as the applicant has been clearing the relevant financial instrument if that is less than a year. {Article 60(2) RTS CCP - II}*

Information to Be Publicly Disclosed

B.19.65 *Please confirm that the CCP will be publicly disclosing the general principles underlying its models and their methodologies, the nature of tests performed, with a high level summary of the test results and any corrective actions undertaken. {Article 61(1) RTS CCP - II}*

B.19.66 *Please confirm that the CCP will be making available to the public key aspects of its default procedures, including:*
[i] the circumstances in which action may be taken;
[ii] who may take those actions;
[iii] the scope of the actions which may be taken, including the treatment of both proprietary and client positions, funds and assets;
[iv] the mechanisms to address a CCP's obligations to non-defaulting clearing members; and
[v] the mechanisms to help address the defaulting clearing member's obligations to its clients. {Article 61(2) RTS CCP - II}

[B.20] Settlement

B.20.1 *Clarify whether the CCP makes use of central bank money to settle transactions, and where central bank money is not used, please specify whether cash settlement risks are limited. {Art 50 (1) EMIR}*

B.20.2 *Provide documentation where the CCP clearly states its obligations with respect to deliveries of financial instruments, including whether there is an obligation for the CCP to make or receive delivery of a financial instrument or whether participants are indemnified for losses incurred in the delivery process. {Art 50 (2) EMIR}*

B.20.3 *In instances where there is an obligation to make or receive deliveries of financial instruments, clarify whether principal risk is eliminated through the use of delivery-versus-payment ('DVP') mechanisms. {Art 50 (3) EMIR}*

Section 4: Interoperability Arrangements

This section deals with Articles 51-54 of EMIR which deals with the Interoperability Arrangements.

- B.21.1** *Specify whether interoperability arrangements are in place with another CCP. {Art 51 (1) EMIR}*

[if no interoperability arrangements exist this is the end of the questionnaire]

- B.21.2** *When establishing an interoperability arrangement with another CCP, specify whether non-discriminatory access is provided to the CCP, for both the data that it needs for the performance of its functions from that particular trading venue and to the relevant settlement system. {Art 51 (2) EMIR}*

- B.21.3** *Provide relevant documentation which highlight the possibility of rejecting or restricting interoperability arrangements or access to a data feed or as settlement system, in order to control any risk arising from that arrangement or access. {Art 51 (3) EMIR}*

- B.21.4** *In cases where an interoperability arrangement exists, specify whether the following risk management related issues are in place (tick where applicable): {Art 52 (1) EMIR}*

a) *Put in place adequate policies, procedures and systems to effectively identify, monitor and manage the risks arising from the arrangement so that they can meet their obligation in a timely manner;*

b) Agree on their respective rights and obligations, including the applicable law governing their relationships;

c) Identify, monitor and effectively manage credit and liquidity risks so that a default of a clearing member of one CCP does not affect an interoperable CCP; and

d) Identify monitor and address potential interdependences and correlations that arise from an interoperability arrangement that may affect credit and liquidity risks relating to clearing member concentrations, and pooled financial resources.

B.21.5 *Specify whether the CCPs where the interoperability arrangement exists, identify differences, assess risks and take measures which limit the impact where risk-management models used by the CCPs to cover exposures of their clearing members or their reciprocal exposures are different. This should also ensure that these differences do not affect each CCP's ability to manage the consequences of the default of a clearing member. {Art 52 (2) EMIR}*

B.21.6 *Specify who would bear any associated costs arising from Questions B.21.4 and B.21.5 above, by providing the necessary documentation to support the answer. {Art 52 (3) EMIR}*

B.21.7 *Specify whether the assets and positions held for the account of CCPs with whom interoperability arrangements exist, are distinguished in separate accounts. {Art 53 (1) EMIR}*

B.21.8 *Explain whether the receiving CCP in an interoperability arrangement has a right of use over margins which it is provided by the applicant in cases where that CCP is provided initial margins under a security financial collateral arrangement. {Art 53 (2) EMIR}*

B.21.9 *Clarify where the deposit of the collateral received in the form of financial instruments is placed. {Art 53 (3) EMIR}*

B.21.10 *Specify whether the assets referred to in Questions B.21.7 and B.21.8 above shall be available to the receiving CCP only in case of default of the CCP which has provided the collateral in the context of an interoperability arrangement. {Art 53 (4) EMIR}*

B.21.11 *In cases of default of the CCP (receiving collateral in context of an interoperability arrangement, specify whether the collateral referred to in Questions B.21.7 and B.21.8 above, would be readily returned to the providing CCP. {Art 53 (5) EMIR}*