

Default Waterfall

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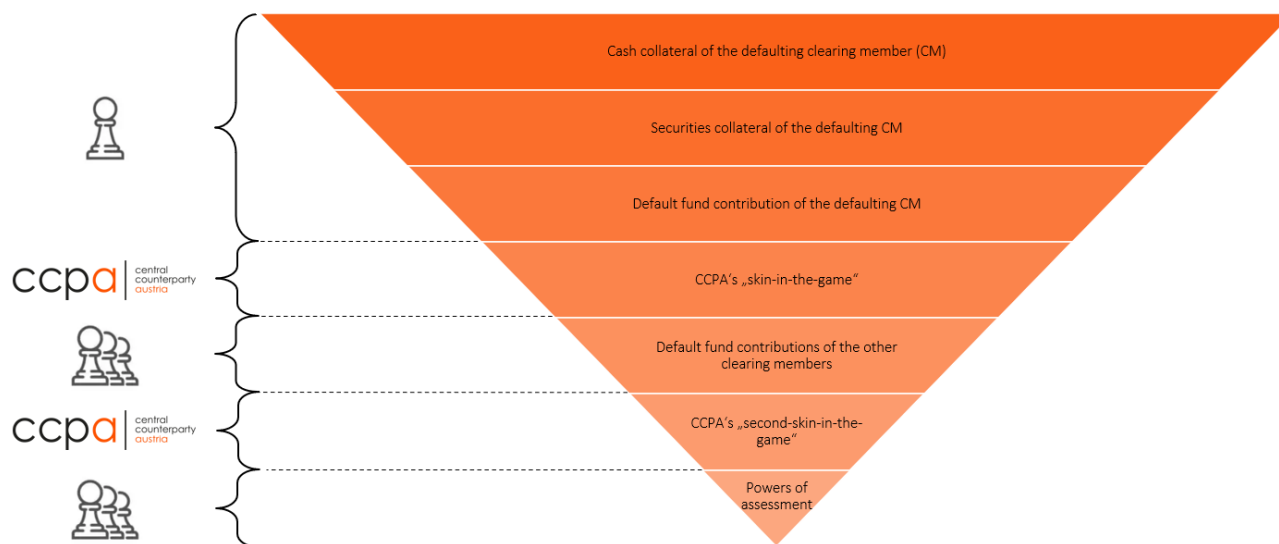
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Introduction

This document describes the default waterfall implemented by CCPA according to Article 45 EMIR.

1 Default waterfall principle

The following diagram shows the order of usage of resources in CCPA's default waterfall in both cleared markets of CCPA:



The application of the default waterfall principle and the order of realisation of the resources on different levels in the event of a clearing member's default is stipulated

- ◆ In section V B (realisation of clearing collateral) and V C (use of the default fund) in the *General Terms and Conditions of Business Securities Market* of CCPA (hereinafter *GTC Securities Market*) on the securities market and
- ◆ In section VII (default) in the *General Terms and Conditions Spot Market Products in Electric Energy* of CCPA (hereinafter *GTC Spot Market Products in Electric Energy*) on the electricity spot market.

1.1 Realisation of the defaulting member's collateral

1.1.1 Securities market

The *GTC Securities Market* stipulate the consequences for the collateral resources or assets of clearing members when CCPA resolves a clearing member's default. The resolving process involves first the positions and assets of the defaulting clearing member. It is structured by the following actions and measures, arranged in chronological order:

- ◆ CCPA immediately informs the exchange operating company (Wiener Börse) and Financial Market Authority (FMA) about the default of the clearing member and, in case of a General Clearing Member, of the affected non-clearing members.
- ◆ The exchange operating company suspends the clearing member (and the affected non-clearing members) from trading and CCPA no longer accepts any transactions from the clearing member or its assigned clients.
- ◆ If possible, positions and assets of segregated accounts are transferred to the previous announced back-up clearing member.

- ◆ The remaining positions are closed-out, with the remaining cash balances being used for loss coverage.
- ◆ In parallel, CCPA is authorised to fully realise the collateral of the defaulting clearing member, pursuant to § 51 *GTC Securities Market*.
- ◆ If the collateral of a defaulting clearing member is consumed by CCPA, the defaulting clearing member is obliged to replenish the required collateral fully, as margin requirements have to be fulfilled at any time.
- ◆ If the clearing member fails on the replenishment objective, it runs formally into default on providing collateral ('default on collateral'), pursuant to § 34 *GTC Securities Market*.

1.1.2 Electricity spot market

The *GTC Spot Market Products in Electric Energy* stipulate the consequences for the collateral resources or assets of clearing members when CCPA resolves a clearing member's default. The resolving process is structured by the following actions and measures, arranged in chronological order:

- ◆ CCPA immediately informs the exchange operating company (Wiener Börse) and EXAA (assigned with operation of trading system) about the default of the clearing member.
- ◆ Wiener Börse suspends the clearing member from trading and CCPA no longer accepts any new transactions from the clearing member for clearing.
- ◆ EXAA blocks the access to the trading system for the concerned exchange member and deletes all open orders in the trading system.
- ◆ CCPA retains the credit-side cash balances of the affected clearing member as additional collateral as of that time.
- ◆ CCPA starts the realisation of collateral assets in order to cover the financial loss resulting from the clearing member default, pursuant to § 32 *GTC Spot Market Products in Electric Energy*.
- ◆ If the collateral of a defaulting clearing member is consumed by CCPA, the defaulting clearing member is obliged to replenish the required collateral fully, as margin requirements have to be fulfilled at any time.
- ◆ If the clearing member fails on the replenishment objective, it runs formally into default on providing collateral ('default on collateral'), pursuant to § 29 *GTC Spot Market Products in Electric Energy*.

1.2 Realisation of the defaulting clearing member's contribution to the default fund

1.2.1 Securities market

Following the procedures described in section 1.1.1, involving positions and collateral of a defaulting clearing member, the resolving process addresses then the default fund to the extent as needed:

- ◆ CCPA realises the defaulting clearing member's (own) contributions to the default fund in the amount necessary to cover remaining losses.
- ◆ If the default fund contribution of a defaulting clearing member is consumed by CCPA, the defaulting clearing member is obliged to replenish the contribution, as default fund contributions requirements have to be fulfilled at any time.
- ◆ If the member fails on the replenishment objective, it runs formally into default on providing collateral ('default on collateral'), pursuant to § 34 *GTC Securities Market*.

1.2.2 Electricity spot market

Following the procedures described in section 1.1.2, involving the collateral of a defaulting clearing member, the resolving process addresses then the default fund to the extent as needed:

- ◆ CCPA realises the defaulting clearing member's (own) contributions to the default fund in the amount necessary to cover remaining losses.
- ◆ If the default fund contribution of a defaulting clearing member is consumed by CCPA, the defaulting clearing member is obliged to replenish the contribution, as default fund contributions requirements have to be fulfilled at any time.
- ◆ If the member fails on the replenishment objective, it runs formally into default on providing collateral ('default on collateral'), pursuant to § 29 *GTC Spot Market Products in Electric Energy*.

1.3 Realisation of CCPA's own dedicated additional resources

Following the procedures described in section 1.2, involving the default fund contribution of a defaulting clearing member, the resolving process activates the waterfall facility of CCPA, i.e. the dedicated additional resources ("skin-in-the-game") of CCPA to the extent as needed and is applicable to both cleared markets:

- ◆ CCPA uses the skin-in-the-game (SIG) to the extent needed to cover remaining losses. The available extent of the skin-in-the-game is set according to Art 45 EMIR and Art 35 Regulation (EU) 153/2013 (hereinafter RTS 153/2013). The calculation of CCPA's own default resources is performed on a regular basis and publicly disclosed on CCPA's website under IOSCO Public Quantitative Data Disclosure (field 4.1.1): <https://www.ccpa.at/cpmi-iosco/>. Currently CCPA's skin-in-the-game amounts to EUR 1.875.000 (25% of its capital requirement according to Art 16 EMIR EUR 7,5 million).
- ◆ The skin-in-the-game is allocated to CCPA's two default funds (for the clearing of securities and the clearing of electricity spot market products) in proportion to their size:
- ◆
$$SIG_i = \frac{DF_i}{(DF_1+DF_2)} * \text{EUR } 1.875.000$$
- ◆ In case of a clearing member's default, CCPA immediately reports to the Financial Market Authority (FMA) the amount, which was realised and reinstates the dedicated own resources to the full extent required, within one month from the notification at the latest.
- ◆ Where a subsequent default of one or more clearing members on the same cleared market occurs before CCPA has reinstated the dedicated own resources, only the residual amount of the allocated dedicated own resources by CCPA is used in the default waterfall.

1.4 Realisation of non-defaulting clearing member's contributions to the default fund

Following the procedures described in section 1.3, involving the waterfall facility of CCPA, the resolving process will address the default fund contribution of the other non-defaulting clearing members (joint and several liability) on the affected market to the extent as needed:

- ◆ CCPA determines the remaining liabilities of the defaulting clearing member, compares them to the size of the remaining default fund of the other clearing members and calculates a percent share of the open liabilities.

- ♦ The contributions of the other non-defaulting clearing members to the default fund will be realised to the percent rate calculated as described above, covering the liabilities of the defaulting clearing member.

1.5 Realisation of CCPA's additional amount of prefunded dedicated own resources

If, after the realisation of the default fund contributions of all other clearing members, there are still outstanding liabilities of the defaulting clearing member, CCPA shall use an additional amount of its prefunded dedicated own resources (second-skin-in-the-game) in accordance with Article 9 para. 14 CCPRRR, the calculation of which is based on Commission Delegated Regulation (EU) 2023/840.

The second-skin-in-the-game is allocated to CCPA's two default funds (for the clearing of securities and the clearing of electricity spot market products) in proportion to their size. The allocation is performed quarterly according to the following formula:

- ♦
$$SIGi = \frac{DFi}{(DF1+DF2)} * \text{EUR } 558.000^1$$

1.6 Replenishment of default fund (powers of assessment)

If CCPA has drawn on the contributions of other non-defaulting members, such clearing members are obliged to replenish their contributions, as default fund contributions requirements have to be fulfilled at any time.

If the realised contributions are not sufficient to fully resolve the default at once, i.e. if the remaining default fund size, is smaller than the respective liabilities then the realisation procedures are being repeated as often as required.

1.6.1 Securities market

According to § 52 *GTC Securities Market*, default fund contributions realised on the securities cash market shall be replenished by each clearing member within the period specified by CCPA in the official publication medium by making new contributions to the default fund up to the fivefold amount of the previous contributions in accordance with the request by CCPA, unless the clearing member informs CCPA about the termination of its clearing membership in the clearing at the latest on the bank day after the realisation of the default fund contributions defined by CCPA and published in the official publication medium.

1.6.2 Electricity spot market

According to § 32 *GTC Spot Market Products in Electric Energy*, realised default fund contributions shall be replenished by each clearing member within five banking days by making new contributions to the default fund up to the twofold amount of the previous contributions in accordance with the request by CCPA, unless

¹ The amount of the second-skin-in the-game is calculated based on the annual financial report 2023.

the clearing member informs CCPA about the termination of its clearing membership by the end of the third banking day after the realisation of the default fund contributions defined by CCPA the latest.

1.7 Continuous monitoring and reporting

CCPA continuously monitors its capital requirement and the own dedicated resources (first and second skin-in-the-game) and reports the current value to the Austrian National Bank (OeNB) and the Financial Market Authority (FMA) within the monthly EMIR reporting. Due to the size and business model of CCPA (proportionality) and the well-defined and stable (not varying) exposure to the non-clearing business partners the calculated capital requirement lies far below the minimum amount defined in EMIR of EUR 7,5 million but is still fully adequate to meet the EMIR requirements. Therefore, it is assured that the own funds and the other dedicated resources of CCPA are sufficient at any time.

CCPA immediately informs Financial Market Authority (FMA) if the amount of dedicated own resources held falls below the amount according to section 1.3 and section 1.5 together with the reasons for the breach and a comprehensive description in writing of the measures and the timetable for the replenishment of such an amount.

The calculation of CCPA's regulatory capital requirement and own default resources (first- and second-skin-in-the-game) is performed on regular basis and publicly disclosed in the section CCPA IOSCO Public Quantitative Data Disclosure on CCPA's website: <https://www.ccpa.at/cpmi-iosco/>.