

Chapter 10

Firms acting as clearing members and indirect clearing firms

10.4 Own funds requirement for CCP default fund exposures

10.4.1 **R** This section applies to:

- (1) a *MIFIDPRU investment firm* that is a *clearing member*; and
- (2) a *UK parent entity* to which consolidation under **■ MIFIDPRU 2.5.7R** applies, where the relevant *investment firm group* includes one or more *clearing members*.

10.4.2 **R**

- (1) A *MIFIDPRU investment firm* must include its pre-funded contributions to the default fund of a *CCP* in the calculation of its *K-TCD requirement* in accordance with the remainder of this *rule*.
- (2) The *firm* must apply the *rules* and guidance in **■ MIFIDPRU 4.14** (K-TCD requirement) in relation to the relevant default contribution with the following modifications:
 - (a) the transactions specified in **■ MIFIDPRU 4.14.3R** are deemed to include pre-funded contributions made by the *firm* to the default fund of a *CCP*;
 - (b) for the purposes of **■ MIFIDPRU 4.14.7R**, the value of α shall be 1;
 - (c) for the purposes of **■ MIFIDPRU 4.14.9R**, the replacement cost (RC) of the default fund contribution is the book value of that asset in accordance with the applicable accounting framework;
 - (d) for the purposes of **■ MIFIDPRU 4.14.29R**, the applicable risk factor is:
 - (i) the value of a C-factor calculated in accordance with the methodology in **■ MIFIDPRU 10.4.3R** where that C-factor has been published by an *authorised central counterparty* in relation to the default fund of the *CCP*;
 - (ii) in the case of an *authorised central counterparty* that has not published a C-factor relating to its default fund, 1.6%; and
 - (iii) where the *CCP* is not an *authorised central counterparty*, 8%; and
 - (e) for the purposes of **■ MIFIDPRU 4.14.30R**, the credit valuation adjustment (CVA) is 1.

10.4.3

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- (1) For the purposes of ■ MIFIDPRU 10.4.2R(2)(d), a C-factor is:
- (a) in the case of an *authorised central counterparty* that is subject to national rules implementing the requirements in BCBS 282 (Capital requirements for bank exposures to central counterparties) published by the Basel Committee on Banking Supervision in April 2014, a value determined in accordance with the formula in (2); or
 - (b) in the case of any other *authorised central counterparty*, a value determined in accordance with the formula in (3).

The relevant formula under (1)(a) is:

$$\text{C-factor} = \max\left(\frac{K_{CCP}}{DF_{CCP} + DF_{CM^{pref}}}; 8\% \cdot 2\%\right)$$

where, in each case, the values of K_{CCP} , DF_{CCP} and $DF_{CM^{pref}}$ are calculated in accordance with the methodology in BCBS 282.

- (3) The relevant formula under (1)(b) is:

$$\text{C-factor} = \left(1 + \beta \cdot \frac{N}{N - 2}\right) \cdot \frac{K_{CM}}{DF_{CM}}$$

where, in each case, the values of β , N , K_{CM} and DF_{CM} are calculated in accordance with the methodology in BCBS 227

(Capital requirements for bank exposures to central counterparties) published by the Basel Committee on Banking Supervision in July 2012.

10.4.4

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An *authorised central counterparty* may publish C-factors for the purposes of national rules implementing both BCBS 227 and BCBS 282. In this case, the effect of ■ MIFIDPRU 10.4.3R(1)(a) is that the C-factor published for the purpose of BCBS 282 must be used. Where the default fund relates to derivatives, the C-factor published for the purposes of the Standardised Approach to Counterparty Credit Risk (SA-CCR) will normally be the relevant C-factor.

10.4.5

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- (1) Where a *MIFIDPRU investment firm* that is a *clearing member* or an *indirect clearing firm* has trade exposures to a *CCP*, it should consider whether the exposures arise from a transaction listed in ■ MIFIDPRU 4.14.3R as being within scope of the *K-TCD requirement*. ■ MIFIDPRU 4.14.3R(1)(a) and ■ MIFIDPRU 4.14.4R exclude from the scope of the *K-TCD requirement* derivatives contracts that are directly or indirectly cleared through an *authorised central counterparty*.
- (2) However, the exclusion in (1) does not apply to a pre-funded contribution of a *clearing member* to the default fund of a *CCP*, as this exposure is not a contract cleared through the *authorised central counterparty*. ■ MIFIDPRU 10.4.2R explains how a *firm* should calculate the *K-TCD requirement* for the contribution.

10.4.6

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Where this section applies to a *UK parent entity* in accordance with ■ MIFIDPRU 10.4.1R(2), the requirement in ■ MIFIDPRU 10.4.2R and the modifications it makes to the *rules and guidance* in ■ MIFIDPRU 4.14 apply to the *UK parent entity* in relation to any pre-funded contributions to the default fund of a CCP made by any entities included within the *consolidated situation*.