

DERIVATIVES CLEARING MEMBERSHIP STRUCTURE DUBAI CLEAR

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Membership Structure

Pursuant to the CCP General Rules, Default Rules and procedures of the Dubai Clear, Members are classified as follows:

Rule 5 of CCP General Rules provides for provisions related to Membership of the CCP. In line with Rule 5.1, the categories of Clearing Members and Settlement Agents who may be admitted to the Clearing House are as follows:

1. **Trading Clearing Members** – Authorized to clear Proprietary and Client trades executed by themselves as a Trading member of the Exchange.
2. **General Clearing Members** - Authorized to clear Proprietary and Client trades executed by themselves as a Trading member of the Exchange or trades executed by any other Non-Clearing Trading member of the Exchange.
3. **Settlement Agents** – Authorized to settle Client trades on behalf of Clearing Members for DVP clients.

While the above 3 categories of membership are allowed for Securities market (Cash market) only Category 1 and 2 i.e. Trade Clearing Members and General Clearing Members are only applicable for Clearing membership on Derivatives Market.

All existing Dubai Clear members falling in Category 1 (Trade Clearing Members) and Category 2 (General Clearing Members) are automatically recognized as derivatives clearing member subject to meeting the following requirements:

1. Completion of membership form to update derivative clearing membership details;
2. Meeting collateral and SDF requirement.

The Initial Contribution requirements for each category of current membership are set out below:

Membership type	Securities Market	Derivatives Market	Both Securities & Derivatives Market
Trade Clearing Member	AED 10 million	AED 5 million	AED 15 million
Trade Clearing Member – <u>Proprietary Trading</u>	AED 10 <u>5</u> million	AED 2 million	AED 15 <u>7</u> million
General Clearing Member	AED 50 million	AED 10 million	AED 50 million
Settlement Agent	AED 50 million	N/A	N/A

Clearing Members who are offering Clearing services to both Securities & Derivatives Market can allocate their collateral between the two markets.

Contribution of the Settlement Default Fund (DF) – Derivative Market

SCA CCP Regulations require a CCP to establish and administer a Settlement Default Fund (“DF”) to be used in the event of breach or default. Further, the DF must be sufficient to cover the higher of either the default of the largest Clearing Member or the total of the second and

third largest Clearing Member. Contributions to the DF will be based upon the risk the CM posts to the CCP and the adequacy of the DF shall be established through stress testing.

The DF has been created from the contribution of Dubai Clear and contribution from the Clearing Members of the Securities Market. Dubai Clear members who apply for Derivatives Clearing Membership will also have to contribute separately towards this fund CM contribution shall be the higher of either:

- Derivatives fixed initial contribution based on category of membership; or
- Variable contribution based on the risk portfolio of the respective CM in the derivatives market (i.e. highest Initial margin utilized over a pre-defined period).

The above contribution will be **in addition** to the contribution currently made by the Clearing Members for the Securities Market.

The levels of Derivatives Fixed Contributions shall be as follows:

Membership Category	Initial Contribution to CCP
Trade Clearing Member (TCM)	AED 100,000
<u>Trade Clearing Member Proprietary Trading (TCMP)</u>	<u>AED 100,000</u>
General Clearing Member (GCM)	AED 250,000

The variable contribution will be 5% of highest Initial Margin utilised by each CM for the previous month in the Derivatives Market. A higher percentage may be used where required to ensure DF meets adequacy requirement based on Stress test results. Example:

Clearing Member (CM)	CM Type	Fixed DF Contribution	Highest. Initial Margin Utilisation	Floating DF Contribution (5% of highest Initial Margin Utilisation)	Actual DF Contribution (Higher of Fixed/Floating)
A	GCM	250,000	4,000,000	200,000	250,000
B	GCM	250,000	10,000,000	500,000	500,000
C	TCM	100,000	300,000	15,000	100,000
TOTAL		600,000			850,000

On an ongoing basis a Derivatives CMs contribution towards the DF shall be subject to the following:

- The DF contribution shall be fixed for a calendar month unless otherwise determined necessary to increase as per the procedures issued from time to time.
- Dubai Clear will recalculate DF contributions monthly (at the end of each month) for the subsequent month, to ensure that DF contributions are commensurate with the risk portfolio of the CMs.
- The contributions of individual CMs shall be based on the risk to the Dubai Clear i.e. the higher a CMs Initial margin utilised in a calendar month, the higher would be their floating contribution towards the DF for the next month.
- Default fund contribution will be blocked from the Collaterals posted with Dubai

Clear, there is no separate contribution required towards default fund.
Details on default fund including default waterfall approach that would be used in the event of a CM default, together with the replenishment provisions shall be published by way of separate default fund policy