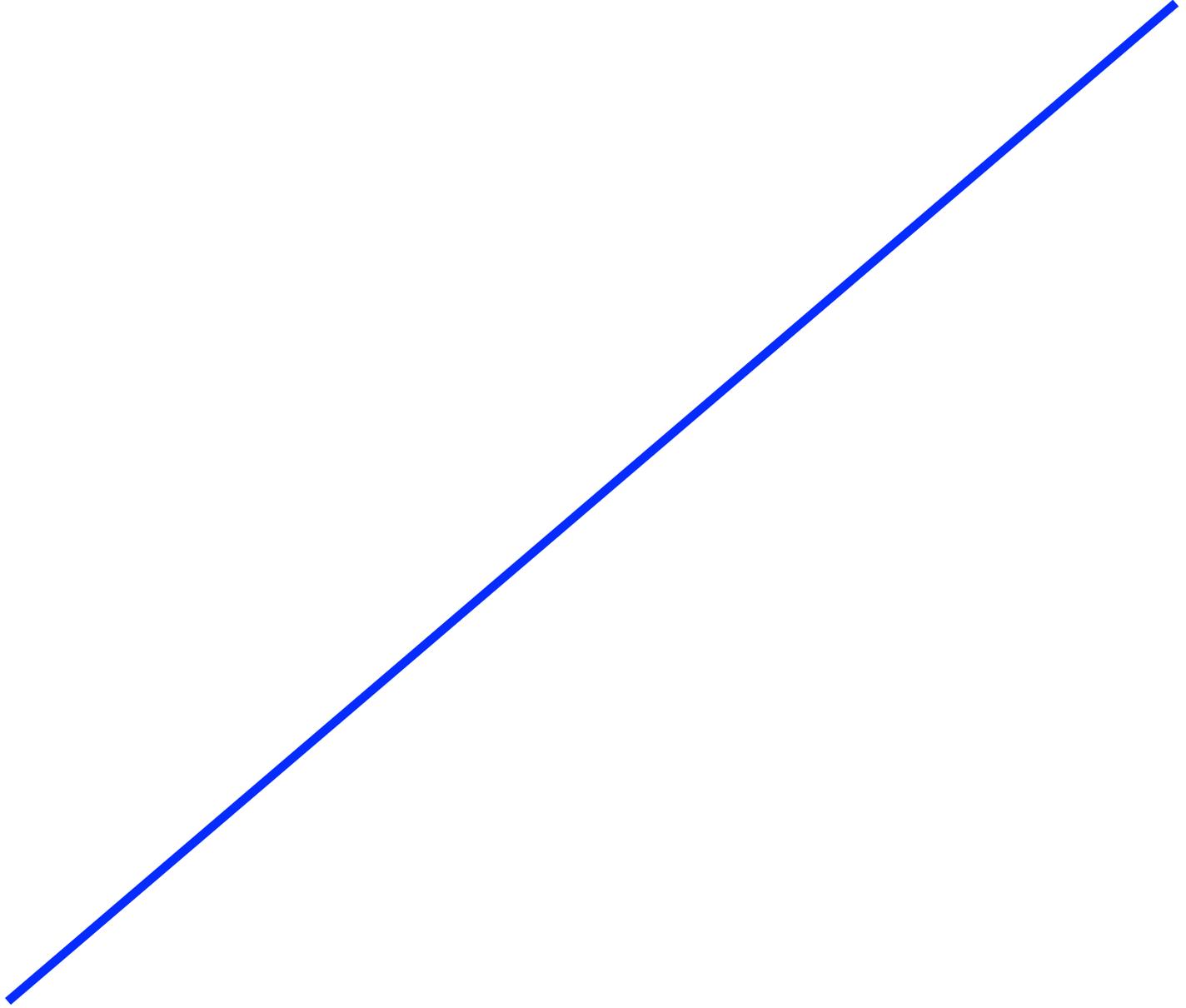




2024

DERIVATIVES - SETTLEMENT DEFAULT FUND POLICY



Classification: POLICY

Type: POLICY

Title: DERIVATIVES - SETTLEMENT
DEFAULT FUND POLICY

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Dubai Clear LLC acts as a Central Counter Party (CCP) for all derivatives trades cleared and settled by the CCP through the novation process. To mitigate risks in relation to the clearing and settlement process, the CCP uses compressive risk management measures including Initial Margins and Variation Margins to ensure settlement of obligations. These risk management measures provide adequate protection in majority of cases but may not be able to guarantee settlement in case of extreme market condition. To support the CCP during extreme unlikely scenarios, the CCP is mandated by the Securities and Commodities Authority of the UAE (SCA) to establish and administer a Settlement Default Fund to be used in the event of a Clearing Member (CM) default.

Size of the Settlement Default Fund

As per SCA CCP regulations, the SDF must be sufficient to cover either the default of the largest CM or the total of the second and third largest CM. The size of SDF is stress tested daily in order to ensure that the SDF is adequate in extreme but plausible market conditions. The CCP uses a combination of historical and hypothetical scenarios to test the adequacy of the SDF.

Contributions to the Settlement Default Fund (SDF)

The Default Fund is created with the contribution from Dubai Clear and contribution from the Clearing Members of the Derivatives Market. Contributions to the SDF by the CMs is based upon the risk the CM posts to the CCP arising from trade positions undertaken by the CM for clearing and settlement with the CCP.

Dubai Clear members who apply for Derivatives Clearing Membership will have to contribute separately towards this fund. This contribution will be in addition to the contribution currently made by the Clearing Members for the Securities Market.

Clearing Member contribution shall be the higher of either:

- a. Derivatives fixed initial contribution based on category of membership; or
- b. 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 levels of Derivatives Fixed Contributions shall be as follows:

Membership Category	Initial Contribution to CCP
Trade Clearing Member (TCM)	AED 100,000
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 Contribution	Highest. Margin Utilisation	Variable Contribution (5% of highest 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

The initial SDF contributions for Derivatives Market will be the Fixed DF Contribution for all clearing members, while the higher of the Fixed DF Contribution or the Variable contribution (calculated using the highest Initial Margin utilised during previous month in the Derivatives Market) will be applied for the subsequent months and advised to CMs.

On an ongoing basis, a CM's contribution towards the SDF shall be subject to the following:

- a. The SDF contribution shall be fixed for a calendar month.
- b. The CCP will recalculate the SDF contributions monthly (at the end of each month) for the subsequent month to ensure that the SDF contributions commensurate with the risk portfolio of the CMs.
- c. The contributions of individual CMs shall be based on the risk to the CCP i.e. the higher a CMs Initial margin utilized in the Derivatives Market in a calendar month, the higher would be their floating contribution towards the SDF for the next month.
- d. The SDF contribution will be blocked from the CM's Collateral lodged with the CCP. There is no separate contribution required towards the SDF.
- e. In a Default Event and if the SDF is required to be utilized to resolve the Default Event, the "Default Waterfall" approach as prescribed by the SCA CCP Regulations (ie. how the SDF will be applied to extinguish the default amount) is as follows:
 - i. Margins of the Defaulting CM will be used first, followed by;
 - ii. Outstanding collaterals of the Defaulting CM, followed by;
 - iii. Skin-in-the-game contributions of the CCP, followed by;
 - iv. The contributions of other CMs to the SDF on a pro-rated basis, followed by;
 - v. Top-up as may be approved by SCA but limited to a maximum of one time the existing contribution.



Administration of the Settlement Default Fund

1. The general administration of the SDF is overseen by the CCP's Risk Management Committee (RMC).
2. The CCP shall maintain books and records of the SDF in line with international best practice requirements and as per SCA's requirements.
3. The assets of the SDF shall be used solely for the management of a Default Event in line with the Default Rules.
4. Where applicable, the assets of the SDF may be invested to ensure highest priority is provided to Capital Protection and Liquidation maximization.
5. Any income from the SDF shall be first used to fund all expenses related to the operation and management of the SDF investment. Any residual income may be distributed to the SDF.



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