

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 (Text with EEA relevance)

CHAPTER XII

REVIEW OF MODELS, STRESS TESTING AND BACK TESTING

(Article 49 Regulation (EU) No 648/2012)

SECTION 5

Coverage and use of test results

Article 55

Maintaining sufficient coverage

1 A CCP shall establish and maintain procedures to recognise changes in market conditions, including increases in volatility or reductions in the liquidity of the financial instruments it clears, so as to promptly adapt calculation of its margin requirement to appropriately account for new market conditions.

2 A CCP shall conduct tests on its haircuts in order to ensure collateral can be liquidated at least at its haircutted value in observed and extreme but plausible market conditions.

3 If a CCP collects margin at a portfolio, as opposed to product level, it shall continuously review and test offsets among products. A CCP shall base such offsets on prudent and economically meaningful methodology that reflects the degree of price dependence between the products. In particular, a CCP shall test how correlations perform during periods of actual and hypothetical severe market conditions.

Article 56

Review of models using test results

1 A CCP shall have clear procedures 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. Where a CCP has determined that it is necessary to call additional margin it shall do so by the next margin call.

2 A CCP shall evaluate the source of testing exceptions highlighted by its back tests. Depending on the source of exceptions, the CCP shall 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.

Changes to legislation: There are currently no known outstanding effects for the Commission Delegated Regulation (EU) No 153/2013, SECTION 5. (See end of Document for details) EUR 2013 No. 153 may be subject to amendment by EU Exit Instruments made by the Bank of England under powers set out in The Financial Regulators' Powers (Technical Standards etc.) (Amendment etc.) (EU Exit) Regulations 2018 (S.I. 2018/1115), regs. 2, 3, Sch. Pt. 3. These amendments are not currently available on legislation.gov.uk. Details of relevant amending instruments can be found on their website/s. (See end of Document for details)

3 A CCP shall evaluate the sources of testing exceptions highlighted by its stress tests. The CCP shall 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.

4 Where the results of the tests show an insufficient coverage of margin, default fund or other financial resources, a CCP shall increase overall coverage of its financial resources to an acceptable level by the next margin call. Where the results of the tests show insufficient liquid financial resources, the CCP shall increase its liquid financial resources to an acceptable level as soon as is practicable.

5 A CCP shall, in reviewing its models, their methodologies and the liquidity risk management framework, monitor the frequency of reoccurring testing exceptions to identify and resolve issues appropriately and without undue delay.

Changes to legislation:

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