MARKET NOTICE

EURONEXT CLEARING

27 June 2023

VAR-BASED MARGIN METHODOLOGY FOR FIXED INCOME

To the attention of:	**Euronext Clearing Members on Bonds section and ICSD Bonds section of Borsa Italiana**
Priority:	**High**
Topic:	**New services available for Clearing Members regarding the liquidity add-on**

Dear Client,

Euronext Clearing developed an Expected Shortfall model for the computation of the Initial Margins in the Fixed Income Section. Such methodology replaced, for bonds issued by Italy, Spain, Ireland and Portugal, the previously applied SPAN-like model on 20th June 2022. The Expected Shortfall methodology is based on the adoption of benchmark curves. Nevertheless, benchmarking techniques require a solid assessment of whether the theoretical values used in the risk metric adopted are adequate to fully represent underlying risks in margined portfolios. In this context, Euronext Clearing has developed a Liquidity Framework based upon the following principles:

1) an enhanced assessment of the potential bias underlying theoretical prices, that will converge in the already existing Idiosyncratic and Concentration Risk Add-on;
2) the assessment of potential uncovered close-out costs deriving from bid-ask spreads, that will represent a new Liquidity Risk Add-on on a stand-alone basis.

The Liquidity Framework will go-live on 3 July 2023.

Data flows and reports will be amended as to take into account the new liquidity addon. In particular, the following amended data flows/reports will contain a new dedicated field for the liquidity addon:

- D50I/MN15 - Total Margins;
- DF99/MF15 - Fail Total Margins.

The updated risk and data flows manuals will be made available on Euronext Clearing website by the end of this week.

Client Impact

On 03 July 2023 the **BCS Client 5.11.0** will be released in the production environment and it will allow to display the new margin components relative to liquidity (Bid/Ask) add-on within the calculation of the risk (What-If) simulation for Bonds markets.

The previous version of BCS Client will remain compatible, although it will not show the above-mentioned values within the *What-If results* pop-up.

Such new detailed values will be also displayed in new dedicated fields introduces in the *Notify-What-If* message of the API for Bonds markets.

With the aim to allow integration tests, the interface modifications are already available in CDS environment.

BCS Client 5.11.0 and a new version of the **API Data Layouts** document was published on 2 June 2023 in the following web page: https://www.borsaitaliana.it/borsaitaliana/gestione-mercati/bcs-bitclearingstation/bcs.htm.

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