

Client Information

Individual client segregation and
indirect clearing

Valid from: 3 January 2018

I. Individual client segregation

Client protection (individual client segregation)

Since August 2013, KELER CCP provides individual client segregation service for its capital market Clearing Members on BSE and BSE MTF markets. In the framework of the service, collateral assets of the clients of the Clearing Members (non-Clearing Members, principals) are protected on an even higher level than earlier. This higher level protection has been developed for those the non-Clearing Members and principals who chooses individual segregation service. In the context of the client protection, cash and securities collateral assets of individually segregated clients are fully segregated from the assets of the Clearing Member and from the assets of all other clients of the Clearing Member. Assets of the individually segregated clients shall only be used in case of the default of the given segregated client.

As a prerequisite of the service, positions of the individually segregated clients shall also be segregated on both the cash and the derivatives market. Nevertheless, settlement of exchange traded transactions shall be executed on omnibus client level still, to retain netting advantages.

The use of the service - in case of the default of a Clearing Member - shall support the porting of the positions and the assets of the non-defaulting clients. In order to facilitate the process more efficient, individually segregated clients shall select a back-up Clearing Member as well.

Client protection was also considered on a higher level, when KELER CCP established its final loss allocation procedure, since individually segregated clients have the highest safety.

Individual segregation

i. Segregation

Individual segregation of collateral assets has been established in line with EMIR regulation on both the derivatives and the cash markets clearing. The solution ensures a higher level of client protection, where KELER CCP segregates the positions and the collateral assets on single client level. Collateral assets provided on individually segregated accounts can only be used in case of the default of the given individually segregated client, providing a protection from the default of the Clearing Member or from other clients of the Clearing Member.

The service is available for the clients choosing individual segregation on the derivatives or on the cash market.

Individually segregation may be requested via the Clearing Member by any of the non-Clearing Members or the principles of the Clearing Member.

Segregation shall be initiated by the Clearing Member towards KELER CCP, based on the agreement concluded between the client and the Clearing Member. The Clearing Member shall fill in the form 'Segregated Non-Clearing Member / Segregated Client Statement and Data Sheet'. The form is available as the attachment of the 'Clearing Member agreement'.

Individual segregation can be chosen by any of the principals independently from the nature of the person (legal or natural), and non-Clearing Members.

Having registered the segregated client, KELER CCP and together with KELER, who keeps collateral assets of the clients, shall give a unique identifier to the client and opens the collateral cash and securities accounts of the client based on the identifier.

After the successful opening of the accounts, all the trades and open positions of the segregated client shall be segregated from the Clearing Member house and other client's positions, including daily collateral requirement calculated on the positions on risk based. This results, that the position of segregated client are not netted with other clients' positions. Segregated client is obliged to fulfil daily collateral requirement on the accounts opened with the cooperation of the Clearing Member. For the completeness of client protection, based on EMIR, the Clearing Member is obliged to transfer all assets of the client to the individual accounts, such as, assets on the top of actual calculated collateral requirement.

ii. Individual position management

Clients requiring individual segregation are receiving a unique identifier on both the derivatives and the cash markets. In case of the derivatives market, clients are identified with their current identifier and a technical registration code within the systems of the KELER Group. In case of cash market transactions, the Clearing Member shall require an identifier from the Budapest Stock Exchange and this will be amended with the technical registration code.

In connection with cash market individual segregation, the Clearing Member (trader) shall initiate the identifier of the segregated client at the moment of the transaction (order) executed. Transactions captured with missing or false client identifier shall not be individually segregated, those are cleared together with omnibus client positions by KELER CCP.

iii. Settlement

Variation margin resulting from clients' derivatives transaction and delivery or payment obligation resulting from clients' futures on equities or commodities transactions; and delivery or payment obligation resulting from clients' cash market securities transactions - with the exemption of non-Clearing Members' securities settlement - are executed on the Clearing Member's omnibus account. Consequently, KELER CCP does not apply individual segregation in case of settlement of financial, commodity or securities transactions.

iv. Fees

KELER CCP charges monthly fee for the Clearing Member after each individually segregated client, which is HUF 5.000 / month / market (derivatives or cash market).

Collateral adequacy

The Clearing Member is responsible for fulfilling daily collateral requirement, where the collateral assets are meeting the requirement calculated in accordance with the segregation level. KELER CCP

examines collateral adequacy against the assets provided on the given segregation level. Should KELER CCP notice non-fulfilled collateral requirement on a certain segregation level, KELER CCP will initiate the suspension of the Clearing Member's (and its non-Clearing Members') trading right without delay after the cut-off time.

Segregation levels:

- Clearing Member's house (own) collateral requirement
- Clearing Member's omnibus (client) collateral requirement
- Individually segregated client 1
- Individually segregated client 2
- Individually segregated client n

Portability / Default management

Client protection is a top priority in default management. In line with this, it is fully supported that the collateral assets of the segregated clients can not be used in case of the default of the Clearing Member or in case of the default of other clients of the Clearing Member.

i. Portability / Back-up Clearing Member

The safety of the segregated clients is further assisted with the possibility of selection of a so-called back-up Clearing Member. Should the segregated client select a back-up Clearing Member, in case of the default of the original Clearing Member, positions and collateral assets of the segregated clients can be ported to the back-up Clearing Member in accordance with the business rules of KELER CCP.

By the selection of a back-up Clearing Member, continuous and smooth clearing and settlement is supported by the porting of positions and assets in case of the default of Clearing Member.

Porting of non-defaulting segregated client's positions and assets should be processed via the selected back-up Clearing Member or receiver Clearing Member within three clearing days after the default is declared.

Multinet cash market positions already in settlement cycle, can not be ported to other Clearing Member.

Selection of a back-up Clearing Member shall be initiated by the selected Clearing Member towards KELER CCP, based on the agreement concluded between the client and the Clearing Member. The selected back-up Clearing Member shall fill in the form 'Back-up Clearing Member Statement and Data Sheet'. The form is available as the attachment of the 'Clearing Member agreement'.

ii. Default management (general summary)

In case of financial default of the Clearing Member - apart from default on house or client account - the trading right of the Clearing Member shall be suspended without delay including non-Clearing Members' trading right as well. In case of securities default, the trading right of the Clearing Member shall only be suspended if the financial side of the so-called correctional transaction is not fulfilled.

KELER CCP general business rules contains the default waterfall shall be followed in case of default, which promotes the efficient and safe management of the default. The principals of the default waterfall order:

- each default is the default of the Clearing Member;
- free assets of the Clearing Member shall used first;
- clients' assets can not be used in case of default of the Clearing Member's house account;
- segregated clients' assets can not be used nor in case of the default of the Clearing Member's house account, nor in case of the default of the Clearing Member's omnibus client account;
- risk contagion should be avoided;
- using of collateral assets in descending liquidity order.

With the application of the above principals, KELER CCP ensures the general protection of the clients, since clients' assets can not be used in case of the default of Clearing Member. Conversely, in case of default on client account, only the assets of individually segregated clients are protected, all other assets shall be deprived, used in accordance with the principals stated.

iii. Default management (segregated client)

Trading right of the Clearing Member and its non-Clearing Members shall be suspended even in case of default of segregated client.

In case of default of the segregated client, free assets of the segregated client shall be used first, while having exhausted, other collateral assets shall be used. Should the referred assets be insufficient to fulfil the default of the segregated client, KELER CCP - in the following order - shall use the following assets: free assets of the Clearing Member, basic financial collateral and finally the Clearing Member's own contribution to the default fund.

In case of default of segregated client, the Clearing Member's other clients' assets shall not be used.

iv. Final loss allocation (end of default waterfall)

Chapter XIII of KELER CCP business rules regulates the applicable rules in case of final loss allocation. Final loss allocation occurs in case all assets have been exhausted in accordance with the default waterfall in relation to a default, though KELER CCP attempts to settle all loss resulting from the default at its own discretion.

One tool of the final loss allocation process is the positive variation margin haircutting, where the loss (negative variation margin) resulting from not yet closed derivatives open positions are financed by the reduction or full withholding of positive variation margin resulting from the non-defaulting Clearing Members' open derivatives positions. In this process, in order to strengthen client protection, KELER CCP primarily reduces or withholds positive variation margin resulting from Clearing Members' house positions, secondarily reduces or withholds positive variation margin resulting from omnibus clients' positions and only ultimately reduces or withholds positive variation margin resulting from individually segregated clients' positions.

II. Indirect clearing on the derivatives market

Financial institution client acting on the derivatives market is entitled to provide indirect clearing services for other clients (client of the client or indirect client) by MiFID II entering into force based on the agreement concluded between them.

Nor the client providing, or the client using the indirect clearing service shall become direct participant of KELER CCP providing central clearing service.

On the request of the Clearing Member, KELER CCP is obliged to ensure segregation in terms of positions and assets for the clients as follows:

- individual position management and omnibus collateral asset segregation;
- individual position management and individual collateral asset segregation.

In general, positions are always registered and kept on individual position management accounts, e.g. clients' trades are managed individually. While, clients' collateral assets are kept on an omnibus account by default, only individually segregated clients' assets are treated differently.

In case of clients interested in indirect clearing services, the client's assets who's providing the service will be kept segregated automatically (becoming individually segregated client), while clients using the service are free to choose individual segregation. Unless they choose individual segregation, their assets will be kept together with the other clients' assets of the client providing the service. But, theirs assets are still segregated from the Clearing Member's own assets and from the other clients' assets of the Clearing Member.

Segregation (omnibus, gross / individual)

i. Omnibus, gross segregation

In case of omnibus segregation, the assets of the client providing indirect clearing and the assets of the indirect clients (not choosing individual segregation) are kept on the same account. Therefore, assets held on this account can be used in case of default of the client providing the service or default of any of the indirect clients.

ii. Individual segregation

Client using indirect clearing service may choose individual segregation, where its assets will be fully segregated from the assets of the client providing the service, from the assets of all other omnibus clients or individually segregated clients' assets and from the assets of the Clearing Member.

In this case, the client's assets - in line with the individually segregated client - are having the highest rate of safety and shall be used to cover the default of the given client.

iii. Registration

Registration of the clients interested in indirect clearing services shall be initiated by the Clearing Member towards KELER CCP, based on the agreement concluded between the client and the Clearing Member. The Clearing Member shall fill in the form 'Client providing indirect clearing services and the Indirect Client registration form'. The form is available as the attachment of the 'Clearing Member agreement'.

Indirect clearing service shall be provided by only financial institution client meeting the requirements.

Having registered the client, based on the chosen segregation method, KELER CCP together with KELER, who keeps collateral assets of the clients, shall give a unique identifier to the client and opens the collateral cash and securities accounts of the client based on the identifier.

iv. Fees

KELER CCP charges monthly fee for the Clearing Member after each individually segregated client, which is HUF 10,000 / month / client in case of omnibus segregation and HUF 10,000 / month / indirect client in case of individual segregation.

Collateral adequacy

The Clearing Member is responsible for fulfilling daily collateral requirement, where the collateral assets are meeting the requirement calculated in accordance with the segregation level. KELER CCP examines collateral adequacy against the assets provided on the given segregation level. Should KELER CCP notice non-fulfilled collateral requirement on a certain segregation level, KELER CCP will initiate the suspension of the Clearing Member's (and its non-Clearing Members') trading right without delay after the cut-off time.

Segregation levels:

- Clearing Member's house (own) collateral requirement
- Clearing Member's omnibus (client) collateral requirement
- Individually segregated client 1
- Individually segregated client 2
- Segregated indirect client (omnibus segregation) 3
- Segregated indirect client (individual segregation) 4
- Individually segregated client n

Portability / Default management

Client protection is a top priority in default management. In line with this, it is fully supported that the collateral assets of the segregated clients can not be used in case of the default of the Clearing Member or in case of the default of other clients of the Clearing Member.

i. Portability / Back-up Clearing Member

The safety of the segregated clients is further assisted with the possibility of selection of a so-called back-up Clearing Member. Should the segregated client select a back-up Clearing Member, in case of the default of the original Clearing Member, positions and collateral assets of the segregated clients can be ported to the back-up Clearing Member in accordance with the business rules of KELER CCP.

By the selection of a back-up Clearing Member, continuous and smooth clearing and settlement is supported by the porting of positions and assets in case of the default of Clearing Member.

Porting of non-defaulting segregated client's positions and assets should be processed via the selected back-up Clearing Member or receiver Clearing Member within three clearing days after the default is declared.

Multinet cash market positions already in settlement cycle, can not be ported to other Clearing Member.

Selection of a back-up Clearing Member shall be initiated by the selected Clearing Member towards KELER CCP, based on the agreement concluded between the client and the Clearing Member. The selected back-up Clearing Member shall fill in the form 'Back-up Clearing Member Statement and Data Sheet'. The form is available as the attachment of the 'Clearing Member agreement'.

Back-up Clearing Member can be selected only by segregated clients, such as client providing indirect clearing or client choosing individual segregation.

ii. Default management (general summary)

In case of financial default of the Clearing Member - apart from default on house or client account - the trading right of the Clearing Member shall be suspended without delay including non-Clearing Members' trading right as well. In case of securities default, the trading right of the Clearing Member shall only be suspended if the financial side of the so-called correctional transaction is not fulfilled.

KELER CCP general business rules contains the default waterfall shall be followed in case of default, which promotes the efficient and safe management of the default. The principals of the default waterfall order:

- each default is the default of the Clearing Member;
- free assets of the Clearing Member shall be used first;
- clients' assets can not be used in case of default of the Clearing Member's house account;
- segregated clients' assets can not be used nor in case of the default of the Clearing Member's house account, nor in case of the default of the Clearing Member's omnibus client account;
- risk contagion should be avoided;
- using of collateral assets in descending liquidity order.

With the application of the above principals, KELER CCP ensures the general protection of the clients, since clients' assets can not be used in case of the default of Clearing Member. Conversely,

in case of default on client account, only the assets of individually segregated clients are protected, all other assets shall be deprived, used in accordance with the principals stated.

iii. Default management (segregated client)

Trading right of the Clearing Member and its non-Clearing Members shall be suspended even in case of default of segregated client.

In case of default of the segregated client, free assets of the segregated client shall be used first, while having exhausted, other collateral assets shall be used. Should the referred assets be insufficient to fulfil the default of the segregated client, KELER CCP - in the following order - shall use the following assets: free assets of the Clearing Member, basic financial collateral and finally the Clearing Member's own contribution to the default fund.

In case of default of segregated client, the Clearing Member's other clients' assets shall not be used.

iv. Final loss allocation (exhausting of the assets of the default waterfall)

Chapter XIII of KELER CCP business rules regulates the applicable rules in case of final loss allocation. Final loss allocation occurs in case all assets have been exhausted in accordance with the default waterfall in relation to a default, though KELER CCP attempts to settle all loss resulting from the default at its own discretion.

One tool of the final loss allocation process is the positive variation margin haircutting, where the loss (negative variation margin) resulting from not yet closed derivatives open positions are financed by the reduction or full withholding of positive variation margin resulting from the non-defaulting Clearing Members' open derivatives positions. In this process, in order to strengthen client protection, KELER CCP primarily reduces or withholds positive variation margin resulting from Clearing Members' house positions, secondarily reduces or withholds positive variation margin resulting from omnibus clients' positions and only ultimately reduces or withholds positive variation margin resulting from individually segregated clients' positions.

Simplified workflow and client application rules

Individual segregation / Indirect clearing

1. Client decides to use individual segregation service and/or providing indirect clearing or using it
2. Client informs its Clearing Member and concludes an agreement with
3. Clearing Member fills in the relevant form to register the client at KELER CCP
4. Client have the opportunity to select a back-up Clearing Member
5. Back-up Clearing Member fills in the relevant form to register the client at KELER CCP
6. In case of cash securities market client, Clearing Member requires a trading identifier from the Budapest Stock Exchange for the given client*
7. In case of cash securities market transactions, having registered the client, trading identifier - in the relevant field - shall be used in each client transaction (from the moment when giving the order)*
8. KELER opens the segregated client accounts
9. The segregated client can be viewed on clearing reports with the unique identifier. Clearing Member shall transfer all the collateral assets of the client on the segregated accounts.
10. Positions of the segregated client are kept individually, also segregated collateral calculation is executed for the segregated positions
11. Collateral adequacy is checked on segregated client level, the Clearing Member is obliged to fulfil potential deficit
12. In case of default of the segregated client, Clearing Member's and its clients' clearing right shall be suspended
13. Financial and securities settlement remains on the omnibus client or non-Clearing Member accounts
14. Clearing Member shall be charged for each individually segregated client per market

Portability

1. In case of default of the Clearing Member, segregated client shall contact its back-up Clearing Member and require porting
2. In the lack of pre-selected back-up Clearing Member, client shall contact and conclude an agreement with a new (receiver) Clearing Member and require porting
3. Back-up Clearing Member or new (receiver) Clearing Member shall contact KELER CCP and require porting of the positions and assets
4. Should the receiver Clearing Member not initiate porting within three clearing day, KELER CCP is entitled to liquidate client positions
5. In case of cash securities market transactions only new trades will be ported to the receiver Clearing Member*

Default management

1. In case of default of the segregated client, first free assets of the client shall be used, furthermore, in case of insufficiency client's collateral assets shall be used
2. In case of default of the segregated client, Clearing Member's and its clients' clearing right shall be suspended

* Terms regarding solely on individual segregation