

DEFAULT FUND LIABILITY LIMITS TO BE APPLIED TO WITHDRAWING MEMBERS FOR DEFAULT MANAGEMENT RESOURCES

"Central Counterparty Regulation on Istanbul Clearing and Custody Bank Inc." which was published in the Official Gazette dated 14.08.2013 and numbered 28735 requires that clearing members in order to withdraw from CCP membership at their own accord must have fulfilled all of their obligations against Takasbank along with approval of withdrawing by Takasbank Board of Directors. Related directives of all CCP markets have been prepared accordingly.

As clearing members in CCP markets are obliged to make additional contribution to default management resources based on their default fund requirements and meetings of the Takasbank Board of Directors are conducted at certain periods, withdrawing member's request cannot be resolved on the next day of the request. Therefore, it is necessary to limit/cap the obligations of withdrawing member against default management resources from the time Takasbank has been notified of the withdrawal request till the time withdrawal request is approved by Takasbank Board of Directors.

In this framework, this issue is regulated in the related CCP market directives as such: *"...For the CCP members requested to resign from the membership but whose requests have not yet been resolved by the Board of Directors or whose resignation request from the membership has been approved by the Board of Directors but have been allotted time for the return of their deposited guarantee fund contribution, the maximum guarantee fund obligation to which they may expose shall be either two-fold of the guarantee fund amount that should have been deposited as of the month on which the request was made in case of existence of no continuing default whose resolution still continues as of the request date, or shall otherwise be three-fold..."*

The above mentioned rule implies that any member which has requested to withdraw and its request has been approved by Board of Directors in the same month is not provided with additional protection for the reason that Directive already caps additional contribution amount of withdrawing member to default management resources. The protection function of capped contribution is basically due to the fact that request to withdraw from the membership and the resolution dates of the Takasbank Board of Directors is to be in different months.

Below are some examples of request for withdrawal from membership and the results of the request with respect to additional default fund requirement for different months.

Example: Member notifies Takasbank of its request of withdrawal from CCP membership in the related market on 30.01.2018. Assume that member has no open position as of that date, its default fund margin requirement for January is 1 million TL and there is no ongoing default case in the market. In this case, the total contribution amount by the member to default management resources is capped as 2 million TL by the date of withdrawal.

Suppose the request for withdrawal of the member is to be resolved in the Takasbank Board of Directors on 22.02.2018.

- a) Assume that default fund requirement of withdrawing member for February has been calculated as 1.5 million. In this case the member deposits the increased amount to default fund for February. If there is a default in the market by 22.02.2018 and its already deposited default fund contribution is consumed, the member must pay 0.5 million TL as additional default fund. This amount can be used in new defaults.
- b) Assume that default fund for February is calculated as 2.5 million TL for withdrawing member. In this case, the withdrawing member must deposit 2 million TL, which can be used for default that may occur.