



**Disclosure of OMIClear's  
compliance with CPMI-IOSCO  
principles for FMIs**

**June 26<sup>th</sup>, 2024**

## **Versions Index**

**26.Jun.2024**

Initial Version

## **Disclaimer**

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## Index

1. Executive Summary .....	4
2. General Background on OMIClear.....	6
2.1 General Description of OMIClear and the Markets it Serves .....	6
2.2 Legal and regulatory framework .....	11
2.3 System Design and Operations.....	16
3. Principle-by principle summary narrative disclosure .....	20
3.1 Principle 1: Legal Basis .....	20
3.2 Principle 2: Governance .....	23
3.3 Principle 3: Framework for the comprehensive management of risks .....	29
3.4 Principle 4: Credit Risk.....	38
3.5 Principle 5: Collateral .....	50
3.6 Principle 6: Margin.....	54
3.7 Principle 7: Liquidity risk .....	65
3.8 Principle 8: Settlement finality .....	73
3.9 Principle 9: Money Settlement .....	75
3.10 Principle 10: Physical deliveries .....	78
3.11 Principle 11: Central Securities Depositories.....	80
3.12 Principle 12: Exchange-of-value settlement systems.....	81
3.13 Principle 13: Participant-default rules and procedures.....	81
3.14 Principle 14: Segregation and portability .....	87
3.15 Principle 15: General business risk .....	92
3.16 Principle 16: Custody and investment risks .....	97
3.17 Principle 17: Operational risk.....	101
3.18 Principle 18: Access and participation requirements.....	108
3.19 Principle 19: Tiered participation arrangements .....	112
3.20 Principle 20: FMI links .....	114
3.21 Principle 21: Efficiency and effectiveness.....	117
3.22 Principle 22: Communication procedures and standards.....	121
3.23 Principle 23: Disclosure of rules, key procedures, and market data .....	122
3.24 Principle 24: Disclosure of market data by trade repositories.....	125
4. Key Abbreviations and Terms .....	126

# 1. Executive Summary

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In April 2012, the Committee on Payments and Market Infrastructures (CPMI) and the Technical Committee of the International Organization of Securities Commissions (IOSCO) published the report “Principles for Financial Market Infrastructures” (PFMI). These principles apply to all systemically important payment systems, Central Securities Depositories (CSDs), Securities Settlement Systems (SSSs), Central Counterparties (CCPs) and Trade Repositories (TRs), collectively named “Financial Market Infrastructures” (FMIs). This report contains a list of standards designed to ensure that the infrastructure supporting global financial markets is more robust and thus well placed to withstand financial shocks. In general, the standards are principles-based in recognition that different FMIs may have different approaches to achieve a particular result. Notwithstanding, the standards set out a specific minimum requirement to ensure a common minimum level of risk-management across FMIs and countries.

The twenty-four principles outlined in CPMI-IOSCO report are categorised into nine broad categories:

- ➊ General organisation (Principles 1 to 3);
- ➋ Credit and liquidity risk management (Principles 4 to 7);
- ➌ Settlement (Principles 8 to 10);
- ➍ Central Securities Depositories and Exchange-of-value Settlement Systems (Principles 11 and 12);
- ➎ Default management (Principles 13 and 14);
- ➏ General business and operational risk management (Principles 15 to 17);
- ➐ Access (Principles 18 to 20);
- ➑ Efficiency (Principles 21 and 22); and
- ➒ Transparency (Principles 23 and 24).

In December 2012, CPMI and IOSCO published a report containing the “Disclosure framework for financial market infrastructures” and the “Assessment methodology for the principles for FMIs and the responsibilities of authorities”. Based on the latter, OMIClear, C.C., S.A. (“OMIClear”) performed a self-assessment of its compliance with the CPMI-IOSCO PFMIs, in particular regarding the 22 principles that cover the CCPs.

OMIClear started its activity as a Clearing House, Central Counterparty (CCP) and Settlement System on 3 July 2006, following the approval of CMVM (Portuguese Securities Market Commission).

On 31 October 2014 following the implementation of Regulation (EU) N.º 648/2012 of the European Parliament and of the Council of 4 July 2012 on OTC derivatives, central counterparties and trade repositories (EMIR<sup>1</sup>) OMIClear was granted a specific approval from its EMIR College to act as an 'authorised CCP' to provide clearing services in Europe.

OMIClear is listed in the ESMA register of central counterparties authorised to offer services and activities in the European Union in accordance with EMIR. CMVM is the 'national competent authority', assuming the role of the ongoing supervision of OMIClear's activity and compliance with the obligations laid down in EMIR regulation.

As CCP, OMIClear becomes the buyer counterpart to every seller and the seller counterpart to every buyer (the so called 'novation' process) as from the moment an order is matched (through screen trading or auction mechanism) or the bilateral trade (OTC) is registered in any of the connected markets and accepted by OMIClear for clearing and settlement purposes. OMIClear holds a multilayered solution to reduce its participants' risks and to provide effective risk controls to the market, as further described across this assessment report.

The purpose of this document is to provide readers a summary narrative for each principle that is applicable to OMIClear under its CCP role.

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<sup>1</sup> [https://www.esma.europa.eu/sites/default/files/library/ccps\\_authorised\\_under\\_emir.pdf](https://www.esma.europa.eu/sites/default/files/library/ccps_authorised_under_emir.pdf)

## 2. General Background on OMIClear

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### 2.1 General Description of OMIClear and the Markets it Serves

OMIClear started its activity as a Clearing House, Central Counterparty (CCP) and Settlement System on 3 July 2006, following the approval of CMVM (Portuguese Securities Market Commission).

On 31 October 2014 following the implementation of Regulation (EU) N.º 648/2012 of the European Parliament and of the Council of 4 July 2012 on OTC derivatives, central counterparties and trade repositories (EMIR<sup>2</sup>) OMIClear was granted a specific approval from its EMIR College to act as an 'authorised CCP' to provide clearing services in Europe.

OMIClear is listed in the ESMA register of central counterparties authorised to offer services and activities in the European Union in accordance with EMIR. CMVM is the 'national competent authority', assuming the role of the ongoing supervision of OMIClear's activity and compliance with the obligations laid down in EMIR regulation.

OMIClear is also a member of the European Association of CCP Clearing Houses (EACH).

As CCP, OMIClear becomes the buyer counterpart to every seller and the seller counterpart to every buyer (the so called 'novation' process), as from the moment an order is matched (through screen trading or auction mechanism) or the bilateral trade (OTC) is registered in any of the connected markets and accepted by OMIClear for clearing and settlement purposes. The clearing and settlement activity comprises four key functions: a) **positions registration**; b) **assessment of the risk exposure** arising from these positions; c) **collateral requirements** to cover such risk exposure; and d) management of **cash settlements** at TARGET payment system.

OMIClear has in place a **rigorous and transparent risk management framework**, backed by **multilayered resources** in the form of margins to cover potential losses of risk takers ("defaulter pays"), dedicated own funds ("*skin in the game*"), clearing fund contributions (that consists of a risk-sharing arrangement among its members) and equity capital. The default waterfall is designed to ensure further incentives for robust risk management.

To perform the cash settlements resulting from the cleared positions, participates directly as "**ancillary system**" of **TARGET payment system**. TARGET is a special settlement system which is designated by Settlement Finality Directive. In other words, this system provides Settlement Finality Directive 98/26/EC as binding to its participants and also third parties. Irrevocability of payment is part from that finality, meaning that it excludes insolvency

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<sup>2</sup> [https://www.esma.europa.eu/sites/default/files/library/ccps\\_authorized\\_under\\_emir.pdf](https://www.esma.europa.eu/sites/default/files/library/ccps_authorized_under_emir.pdf)

proceedings effect and their possible retroactive application of a transfer order entered in the payment system.

OMIClear, in coordination with OMIP, MIBGAS and MIBGAS Derivatives, has been extending its products portfolio since the market launching, in particular, by performing the clearing activity for derivatives products with:

- ⊕ Different commodity types: power and natural gas;
- ⊕ Different instrument groups: Futures, Forwards, Swaps, Options on Futures;
- ⊕ Different settlement types: financial and physical;
- ⊕ Different types of spot indexes against which contracts settle in the delivery period:
  - Electricity contracts: Spanish index (SPEL Base, SPEL Peak and SPEL Solar); Portuguese index (PTEL Base); French index (FREL Base); Germany Index (DEEL Base); price differences between Portugal and Spain (IFTR P-E Base), price differences between Spain and Portugal (IFTR E-P Base),
  - Natural gas contracts: Spanish index (PVB-ES), price differences between Spain and Dutch (PVBES-TTF) and Dutch index (TTF);
- ⊕ Different underlyings in terms of area zone: Iberian products (Portugal and Spain) and non-Iberian products (France and Germany);
- ⊕ Several load shapes (electricity): baseload, peak load and solar;
- ⊕ Wide set of contract maturity types: days, weekends, weekdays, weeks, months, quarters, seasons, years and multi-year (standardized PPAs – Power Purchase Agreements);
- ⊕ Ample forward curve: from the day-ahead until the 10th year ahead in the case of electricity contracts and from the day-ahead until the 2nd year ahead in the case of natural gas contracts.
- ⊕ Different cash settlement frequencies: daily (Futures) or monthly (Swaps and Forwards);
- ⊕ Cascading feature both in electricity and natural gas contracts (PPAs into years (only for electricity contracts), years into quarters, seasons into quarters and quarters into months).

The following two tables provide a deeper understanding of the eligible derivatives contracts for clearing and settlement in OMIClear for power and natural gas:

**Table 1 – Current OMIClear’s Eligible Power Products**

Instrument group	Underlying Area Zone	Spot Index	Contract Name	Contract Code	Trading Mode in OMIP Market			Settlement Type	
					Screen Trading	Auction	OTC Registration	Financial	Physical <sup>(b)</sup>
FUTURES	Spain	SPEL Base	MIBEL SPEL Base Load Futures	FTB	☉	☉	☉	☉	☉
		SPEL Peak	MIBEL SPEL Peak Load Futures	FTK	☉	☉	☉	☉	☉
		SPEL Solar	MIBEL SPEL Solar Futures	FTS	☉	☉	☉	☉	
	Portugal	PTEL Base	MIBEL PTEL Base Load Futures	FPB	☉	☉ (a)	☉	☉	☉
	Germany	DEEL Base	DEEL Base Load Futures	FDB	☉	☉	☉	☉	
	France	FREL Base	FREL Base Load Futures	FFB	☉	☉	☉	☉	
FORWARDS and SWAPS	Spain	SPEL Base	MIBEL SPEL Base Load Forwards	FWB			☉		☉
		SPEL Base	MIBEL SPEL Base Load Swaps	SWB			☉	☉	
	Portugal	PTEL Base	Base Load PTEL Mini Swaps	SPB			☉	☉	
OPTIONS	Spain	-	MIBEL SPEL Base Load Financial Futures Option	OEB	☉	☉	☉	☉	

(a) Regulated Auctions based on Portuguese and/or Spanish TSO rules.

(b) In case of power derivatives contracts, “physical settlement” refers to OMIClear’s notification of participants’ open positions to the Iberian power spot market managed by OMIE.

Source: OMIClear



**Table 2 – Current OMIClear’s Eligible Natural Gas Products**

Instrument group	Underlying Area Zone	Spot Index	Contract Name	Contract Code	Connected Market	Trades Registration Modes at the connected Markets			Settlement Type	
						Screen Trading	Auction	OTC Regist.	Financial	Physical <sup>(a)</sup>
FUTURES	Spain	n/a	Physical PVB-ES NG Futures	FGE	OMIP	-	-	☉	-	☉
		n/a	Physical PVB-ES NG Futures	GES	MIBGAS / MIBGAS DRV	☉	☉	☉	-	☉
		PVB-ES	Financial PVB-ES NG Futures	FGF	OMIP	☉	☉	☉	☉	-
		Spread PVBES-TTF	PVBES-TTF Spread Futures	FST	OMIP	☉	☉	☉	☉	-
		TTF	PVB-ES NG Physical Futures indexed to TTF	GIT	MIBGAS DRV	☉	☉	☉	☉	☉
		n/a	Physical TVB-ES NG Futures	TVB	MIBGAS DRV	☉	☉	☉	-	☉
		PVB-ES	PVB-ES NG Physical Futures indexed to MIBGAS Day-Ahead index (LPI)	GIM	MIBGAS DRV	☉	☉	☉		☉

(a) In case of Physical PVB-ES NG Futures (FGE and GES), PVB-ES NG Physical Futures indexed to TTF (GIT), Financial TVB-ES NG Futures (TVB) and PVB-ES NG Physical Futures indexed to MIBGAS Day-Ahead (GIM) “physical settlement” refers to OMIClear’s notification of participants’ open positions to the Spanish TSO (Enagás GTS) through a ‘single sided nomination’.

Source: OMIClear

Regarding OMIClear’s participants the following three types of entities exist:

- ☉ **Registration Agents** - those who promote, for themselves or on behalf of others, the registration of transactions through the connected markets for which OMIClear provides services – OMIP Derivatives Market, MIBGAS and MIBGAS Derivatives. Registration Agents are considered “Non-Clearing Members”;
- ☉ **Clearing Members** - those who ensure the risk management of the positions registered in OMIClear on proprietary account (Direct Clearing Members) or on third party account (General Clearing Members). Clearing Members must always comply with the admission requisites established by OMIClear, deposit the collateral required by to cover margin calls, clearing fund or other responsibilities set out in the rules and ensure the financial settlement of their registered positions; and
- ☉ **Settlement Agents** - those who provide the resources for market operation, in particular the access to financial or physical settlement systems. These ancillary participants are of two types: a) Financial Settlement Agents - settlement banks that participate on TARGET payment system that ensures the daily cash payments for own account or third-party account; b) Physical Settlement Agents – agents that take the responsibility of physical delivery (either for electricity or natural gas contracts) of the positions coming from OMIClear for own account or third-party account.

As of December 31<sup>st</sup>, 2023 OMIClear had the following participants:

**Table 3 – OMIClear Participants Number on 31.Dec.2023**

	Registration Agents	Direct Clearing Member	General Clearing Member	Financial Settlement Agents	Power Physical Settlement Agents	Gas Physical Settlement Agents
<b>Total</b>	<b>108</b>	<b>5</b>	<b>4</b>	<b>6</b>	<b>15</b>	<b>62</b>
Iberian	79	3	3	5	13	37
Non-Iberian	29	2	1	1	2	25

Source: OMIClear

The following table provides some key indicators on OMIClear's activity on the last 3 years:

**Table 4 – Some Statistics of OMIClear on the last 3 years**

	2021	2022	2023
Total Cleared Volume (GWh)	60,1	37,2	38,7
Total Cleared Volume (million €)	4.080,6	4.458,3	1.932,1
Open Interest - annual average (GWh)	21.138,9	18.339,8	14.966,5
Pre-funded Clearing Fund (million €) <sup>(a)</sup>	132,0	412,6	187,8
Clearing Fund Additional Responsibility (not-prefunded) <sup>(a)</sup>	132,0	412,6	187,8
Members Collateral (million €) <sup>(a)</sup>	1.272,1	2.534,0	892,2

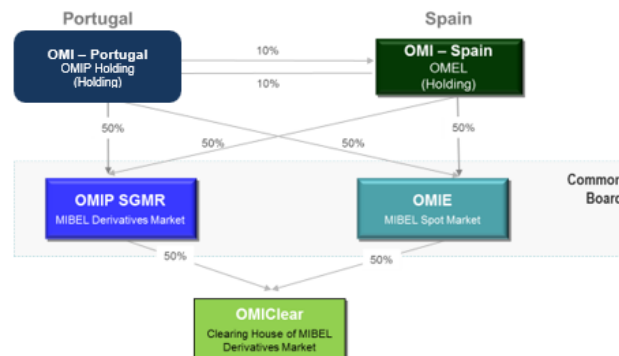
<sup>(a)</sup> Figures referring to the last day of the year

Source: OMIClear

## 2.2 Legal and regulatory framework

OMIClear is a stock corporation formed and incorporated under the laws of Portugal and founded on April 6<sup>th</sup>, 2004. It is 50% owned by OMIP – Pólo Português, S.G.M.R., S.A. (OMIP) and 50% by the lawfully registered Spanish company OMI – Polo Español, S.A. (OMIE), as presented in the following figure:

**Figure 1 – OMI Institutional Organization**



Source: OMIClear

The constitution of the Iberian Market Operator (OMI – Operador do Mercado Elétrico) is rooted in the creation of the Iberian Electricity Market (*Mercado Ibérico de Electricidade - MIBEL*), a joint initiative of the governments of Portugal and Spain that started on January 2004, and is a key step in the development of the European electricity market. The MIBEL agreement contained a plan for the integration of the electricity markets, moving towards a common market for both countries, built over the following key principles:

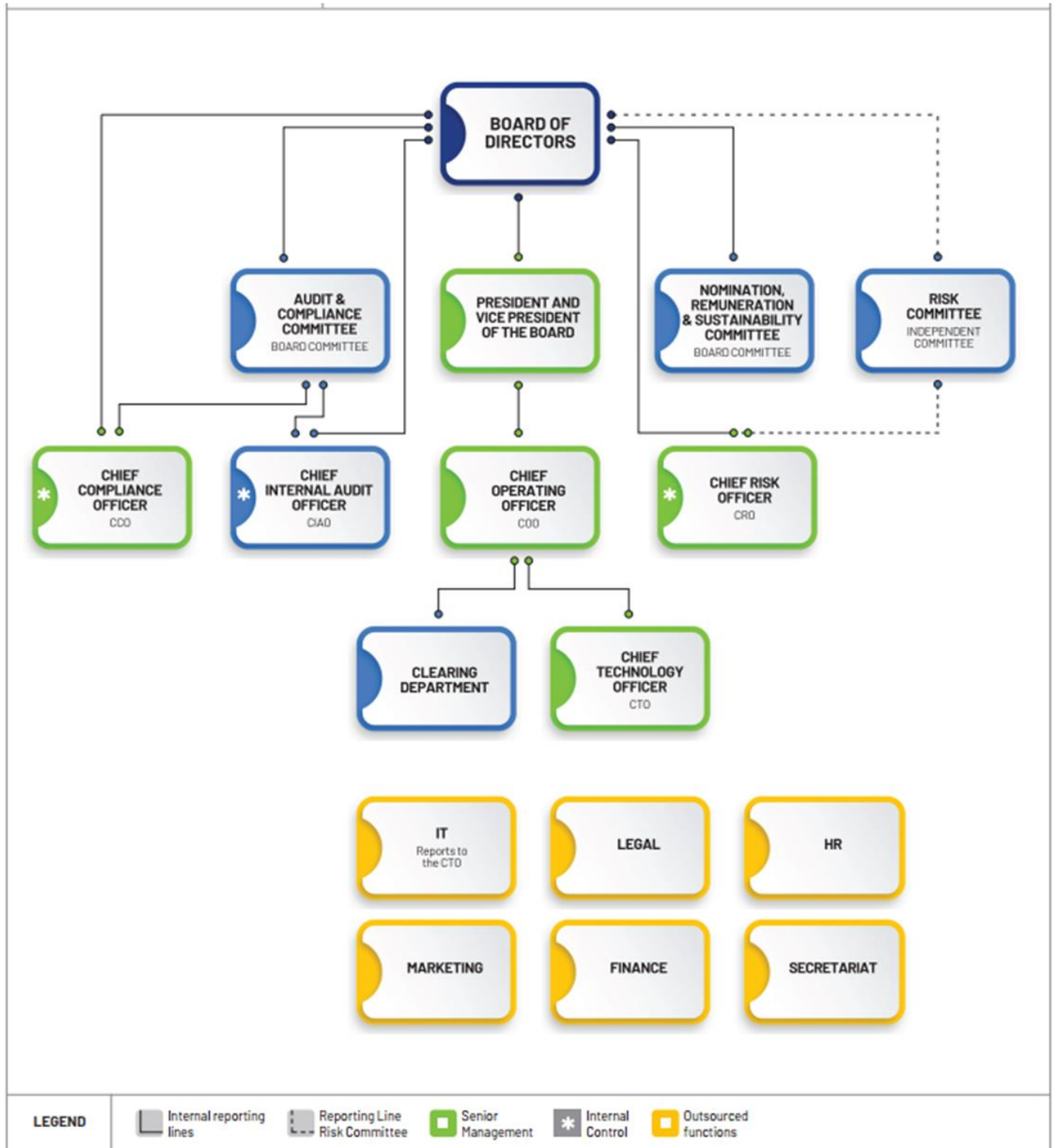
- ➊ To contribute to the establishment of one single Iberian electricity market (OMI);
- ➋ To promote Iberian reference prices;
- ➌ To provide efficient risk management tools;
- ➍ To provide, through a Central Counterparty, the multilateral clearing on the derivatives transactions minimizing risks such as counterparty risk, liquidity risk, operational risk and systemic risks;
- ➎ To overcome some of the limitations of the OTC market.

The corporate governance model is characterized by having the general and operational management of the company under the responsibility of the Board of Directors, formed by the President, Vice-President (these two with executive functions) and four members, two of which are independent. The concept of senior management comprises not only the executive members of the Board, but also the individual persons that stand a hierarchical level immediately below that of the management body in executive functions as far as these persons are involved in the day-to-day management of the institution. Therefore, the senior management of OMIClear is comprised by the executive members of the Board, the Chief Operating Officer, the Chief Risk Officer, the Chief Compliance Officer and the Chief

Technology Officer. In addition to the Board and the General Assembly three committees gives support to the senior management in specific matters of the CCP: Risk Committee; Internal Audit and Compliance Committee and Nomination, Remuneration and Sustainability Committee.

Currently the following organization structure is in place:

**Figure 2 – OMIClear’s Organisation Chart**



Source: OMIClear

OMIClear's clearing rules and conditions were initially designed based on the best practices of European clearing houses that provided services on similar markets.

According to MIBEL International agreement between Portugal and Spain a Regulators Committee – so called MIBEL Regulator's Council - has been designed to supervise the activity of OMIP, OMIClear and OMIE and approve the rules of these two markets and clearing house. Such committee is composed by the financial and energy authorities from Portugal and Spain (PT: CMVM and ERSE; ES: CNMV and CNMC), for more information please see [www.mibel.com](http://www.mibel.com).

Under EMIR framework, for each EMIR compliant CCPs there must be an “*EMIR College*”, which is composed by ESMA and National Competent Authorities (NCAs) of several member states, including: *i)* the NCAs of the state of the clearing members with the largest contributions to the default fund; *ii)* the NCA responsible for the supervision of the venues of execution served by the CCP; and *iii)* the NCAs supervising CCPs with whom interoperability arrangements have been established. As of the date of this document, the EMIR College entitled to supervise on an ongoing basis the OMIClear's compliance with the European regulation is comprised by the following 6 entities: European Securities and Markets Authority (EU), European Central Bank (EU), *Comissão do Mercado de Valores Mobiliários* (PT), *Autorité des Marchés Financiers* (FR), *Autorité de Contrôle Prudential et de Résolution* (FR), and *Comisión Nacional del Mercado de Valores* (ES).

As from its first day of activity OMIClear focus is continuously committed on the quality improvement of the services provided, that fit the market players' needs, relying on robust systems, trustworthy and transparent policies and rules and comply with the applicable European regulation.

OMIClear's rules are structured like follows:

**Table 5 – OMIclear's Rules**

Rule Type	General Description	Rule Designation
1 RULEBOOK	<b>Core rules</b> of OMIclear that establish the main guidelines of CCP functions, organization and activity.	OMIClear Rulebook
30 INSTRUCTIONS	<b>10 General Instructions (A#)</b> More detailed rules compared with the rulebook that contain general rules and procedures that can be extended to products several services provided by OMIclear.	A01-2014 - Definitions and General Provisions
		A02-2014 - Price List
		A03-2014 - Requirements for Settlement Agents
		A04-2014 - Registration Authorized Representatives
		A05-2014 - Registration Accounts and Clearing Accounts
		A06-2014 - Management and Evaluation of Guarantees
		A07-2014 - Guarantees issued by Credit Institutions
		A08-2014 - Split, Transfer, Give-Up and Cancellation of Transactions
		A09-2014 - Defaults
		A10-2014 - Dissemination of Spot Reference Price
		A11-2014 - Autonomous Reserve
	<b>20 Specific Service Instructions (B#)</b> Group of rules that apply specifically to OMIclear's clearing and settlement service on Power Derivatives Contracts	B01-2014 - Participants in the MIBEL Derivatives Market
		B02-2014 - Requirements for Clearing Members
		B03-2014 - Registration of Clearing and Settlement Managers
		B04-2014 - Rules on the MIBEL Derivatives Clearing Exam
		B05-2014 - Requirements for Registration Agents
		B06-2014 - Responsibilities of Clearing Members and Allocation of Guarantees
		B07-2014 - Clearing Fund
		B08-2014 - Financial Settlement
		B09-2014 - Operational Limits
		B10-2014 - Calculation of Margins and Settlement Values
		B11-2014 - Clearing Prices
		B12-2014 - Default Waterfall
		B13-2014 - Settlement in the Delivery Period
		B14-2014 - Eligible Contracts for Registration - Clearing and Settlement
		B15-2013 - General Conditions of FTR Contracts
		B15-2014 - Specific Conditions for the Registration of SPEL Base Forward Contracts
		B16-2014 - Exercise and Maturity of Options Contracts
		B17-2014 - Calendar, Phases and Timetables of the Clearing Sessions
		B18-2014 - Procedures in Case of Default
		B19-2014 - Notification NG Physical Positions to System Operators

Source: OMIclear

These rules are disclosed on OMIClear's website: [www.omiclear.pt](http://www.omiclear.pt) and available in Portuguese (the official version) and in Spanish and English versions.

The amendment to Rules, Policies, procedures and contractual arrangements is documented, is subject to governance arrangements and follows a process as provided for in a specific internal procedure approved by the Board of Directors. The process for reviewing the rules and policies of OMIClear or for the creation of new rules foresees the consultation of affected clearing members, the involvement of the appropriate individuals inside the organization (including the Audit and Compliance Committee or the Risk Committee when appropriate) and the provision of independent legal opinion with the view to streamline the approval or register process of the amendments with the relevant competent authority. This process is finalised through the final approval of amendment Rule or the new Rule by the Board of Directors and by the submission to its national competent authority (CMVM). After CMVM's approval (which may comprise or not the opinion of the remaining entities from EMIR College) at least 5 business days prior to the effective date OMIClear notifies by email all the members of the updated rules.

### 2.3 System Design and Operations

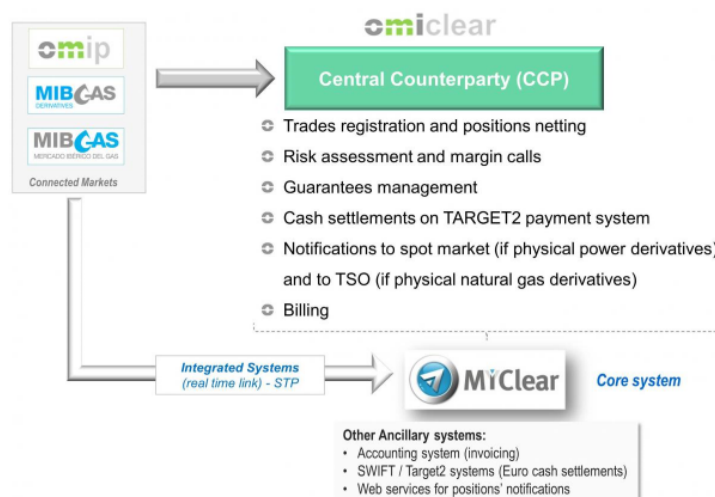
As mentioned, OMIClear as CCP has connection agreements with:

- ➡ OMIP SGMR (regulated market in terms of article 4 (1) of Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 - MIFID II) and
- ➡ MIBGAS and MIBGAS Derivatives (both considered organized markets under article 2 (4) of Commission Implementing Regulation (EU) 1348/2014 of 17 December 2014.

OMIClear business model as a CCP is built over the connection agreements with OMIP SGMR, MIBGAS and MIBGAS Derivatives markets and supported by reliable and robust systems:



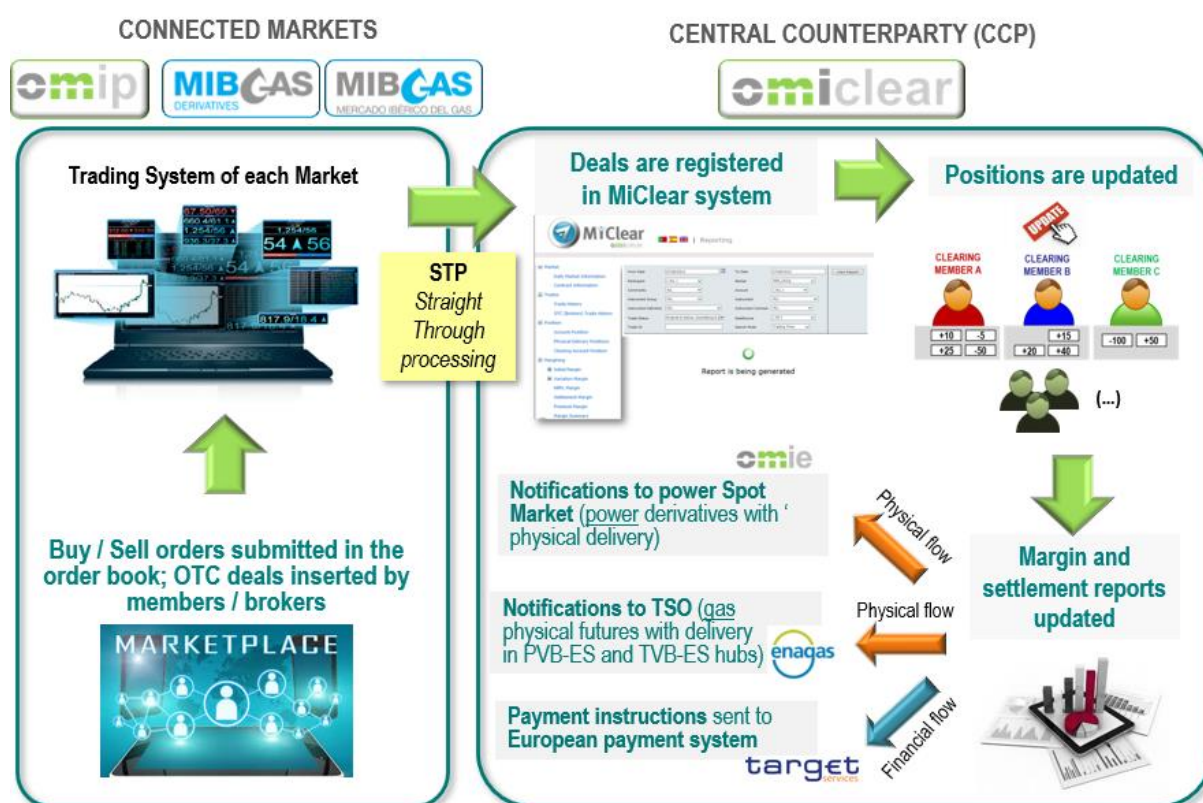
**Figure 3 – OMIClear Business Model**



Source: OMIClear

In terms of market cycle, once the orders are matched (in case of continuous trading or auctions) or once the bilateral trades are accepted in any of the connected markets (OMIP, MIBGAS or MIBGAS Derivatives), the resulting deals are registered in OMIClear for clearing and settlement based on a Straight Through Processing (STP) solution.

Figure 4 – OMIClear Trade Life Cycle



Source: OMIClear

OMIClear IT platform (*MiClear*) was designed to provide market participants with all necessary clearing and settlement information in an efficient way, on a close-to-real-time basis, allowing for two main access modes:

- ➡ Web-based frontend, that includes all functionalities available to participants;
- ➡ XML API for systems integration.

OMIClear API is a read-only API, available to all participants, for extracting and integrating clearing data (public and confidential), related to trading activity performed over OMIClear eligible contracts. This API follows the XML Web Services open standard which is platform agnostic and widely deployed.

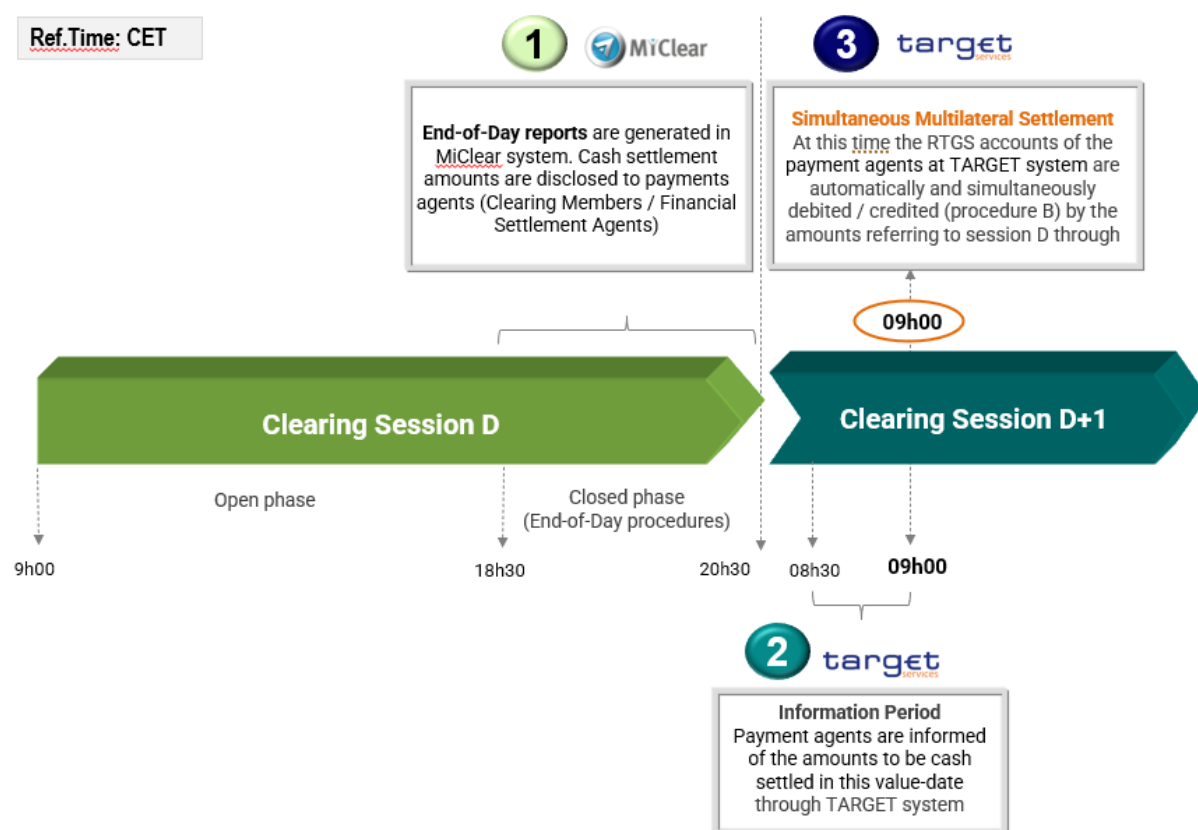
The information provided by MiClear system includes current and historical data on trades, net position, settlements of P&L during contract trading and delivery periods (mark-to-market and final settlement against the spot index, respectively), variable fees, intraday and end-of-day margins, collateral, monthly settlement statistics, results on back tests and stress tests and the target recipients are the clearing members and respective clients (registration agents and also registration agents' clients).

Furthermore, for the daily cash settlements OMIClear, as an *Ancillary System (AS)* and *Direct Participant (DP)* of the *Trans-European Automated Real-time Gross Settlement Express Transfer System (TARGET)*. Under its AS role, OMIClear submits every day an XML file in the integrated central technical infrastructure of TARGET. This payment instruction is based on the settlement procedure B

(“*simultaneous multilateral settlement*”) by which the “RTGS accounts” of the respective settlement banks are debited and credited with the highest priority feature, in “one-shot-mode”, following an “all or nothing” approach.

To provide a global overview of the operation session of the clearing department, its interaction with the trading session of the connected markets (OMIP, MIBGAS and MIBGAS Derivatives), the information provided across the session, the cash settlement procedure, the applicable timetable and which systems are involved in these processes please refer to the following figure:

**Figure 6 – Overview of OMIClear’s Clearing and Settlement Operations. Reference time: CET**



Source: OMIClear

## 3. Principle-by principle summary narrative disclosure

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### 3.1 Principle 1: Legal Basis

***An FMI should have a well-founded, clear, transparent, and enforceable legal basis for each material aspect of its activities in all relevant jurisdictions.***

#### Key Consideration 1

*The legal basis should provide a high degree of certainty for each material aspect of an FMI's activities in all relevant jurisdictions.*

OMIClear is a clearing house authorised by ESMA to offer services and activities in accordance with Regulation (EU) No 648/2012 of the European Parliament and of the Council of 4 July 2012 on OTC derivatives, central counterparties and trade repositories (EMIR).

The main issues regarding OMIClear's clearing activities - novation, netting, default procedures, collateral arrangement, enforcement of CCP rules vis-à-vis its participants, finality of transfers of funds and financial instruments, insolvency, resolution and recovery of the CCP, and the determination of CCP conflicts of laws are defined by the law, inter alia:

- EMIR and implementing regulations;
- The Portuguese Securities Code;
- The Central Counterparties Regime, approved by Decree-law 40/2014 of 18 of March;
- Regulation (EU) No 2021/23 on a framework for the recovery and resolution of central counterparties (CCP recovery and resolution).

All services provided by OMIClear to its participants are governed through contractual arrangements subject to Portuguese law and to Portuguese courts, providing high levels of legal certainty in OMIClear legal arrangements with its participants. Moreover, through OMIClear contractual arrangements all participants expressly accept to apply and comply with OMIClear Rules.

OMIClear Rules structure is composed of a Rulebook and Instructions, both subject to an explicit approval from Portuguese Securities Commission Market (CMVM). They have a version updating control to facilitate users' follow-up.

All participants in OMIClear services are required to comply with OMIClear clearing conditions provided in the Rulebook and Instructions and they are subject to Portuguese law by force of the contractual relationship.

These contractual arrangements, all subject to the Portuguese Law and to European Union Law provide a solid and comprehensive legal framework for OMIClear and its participants, enabling a high degree of certainty in all legal aspects related to OMIClear services.

## **Key Consideration 2**

*An FMI should have rules, procedures, and contracts that are clear, understandable, and consistent with relevant laws and regulations.*

OMIClear Rules and contractual arrangements are clear, comprehensive and they are public disclosed in OMIClear website ([www.omiclear.pt](http://www.omiclear.pt)). Furthermore, they are provided in three different languages (Portuguese, Spanish, and English) ensuring a higher level of comprehension by all OMIClear participants of their rights and obligations.

Any laws or regulations that have an impact in OMIClear services are immediately reflected in its rules and contractual arrangements which are afterwards communicated to all participants by email, and in OMIClear website. Such rules and contractual arrangements are reviewed by OMIClear's Legal and Compliance Departments and in cases where specific matters of special complexity or importance have been identified, specialised external advice has been sought.

All amendments to OMIClear rules and contractual arrangements must stand a minimum period before entry into force in order to allow for an adequate amount of time for participants to adjust to the amendments. Besides that, OMIClear Rule Book, which contains the minimum content of the agreements to be signed with and between CCP participants, and its General Conditions for each Segment (which form part of the Rule Book) are subject to the prior approval of the CMVM. Certain rules might be subject, where so prescribed by EMIR, to prior validation of CMVM.

No queries by participants or users have been found indicating confusion or uncertainty about the regulatory framework applicable to OMIClear.

## **Key Consideration 3**

*An FMI should be able to articulate the legal basis for its activities to relevant authorities, participants, and, where relevant, participants' customers, in a clear and understandable way.*

OMIClear is highly committed to have an active and clear communication policy with all relevant stakeholders in its activities.

All supporting laws, regulations, and rules of OMIClear activities are public disclosed in OMIClear website and available in the most pertinent languages for OMIClear participants.

OMIClear corporate documents are also available online in Portuguese Commercial Registry website making available updated information regarding OMIClear's articles of association, board of directors, and auditor.

## Key Consideration 4

*An FMI should have rules, procedures, and contracts that are enforceable in all relevant jurisdictions. There should be a high degree of certainty that actions taken by the FMI under such rules and procedures will not be voided, reversed, or subject to stays.*

All participants in OMIClear services are subject to OMIClear Rules which are enforceable through legal contracts which are subject to Portuguese Law and Portuguese courts.

The acceptance of participants having its registered seat in a new jurisdiction, is subject to the verification of the enforceability of the legal framework applicable to a CCP in such jurisdiction under the relevant national law.

To ensure that all OMIClear Rules are enforceable in all relevant jurisdictions all Participants subject themselves to Portuguese law and OMIClear has also obtained independent legal opinions attesting the effective application of OMIClear Rules.

Moreover, OMIClear Rules are applicable and enforceable either through the Participants commitment in writing to accept and comply with OMIClear clearing rules and by way of the contract relationship established with OMIClear.

## Key Consideration 5

*An FMI conducting business in multiple jurisdictions should identify and mitigate the risks arising from any potential conflict of laws across jurisdictions.*

Potential conflict of laws is a common risk for CCP's providing services to participants which are established in multiple jurisdictions.

Such risk is fairly mitigated considering that the vast majority of OMIClear participants are established in the EU which provides a common legal framework for clearing services set by EU legislation (e.g. Settlement Finality Directive), by OMIClear services contractual framework and by OMIClear independent legal opinions.

Moreover, OMIClear whenever necessary seeks outside counsel to identify and analyse potential conflicts of law risks enacting the appropriate legal remedies to mitigate such risks.

## Assessment of Principle:

Observed

## 3.2 Principle 2: Governance

***An FMI should have governance arrangements that are clear and transparent, promote the safety and efficiency of the FMI, and support the stability of the broader financial system, other relevant public interest considerations, and the objectives of relevant stakeholders.***

### Key Consideration 1

*An FMI should have objectives that place a high priority on the safety and efficiency of the FMI and explicitly support financial stability and other relevant public interest considerations.*

As clearing house, central counterparty (CCP) and settlement systems operator, OMIClear has adopted a set of tools for managing and mitigating risks that may arise in its activity.

In order to assure that OMIClear operates within the highest industry standards being at the same time an active member of the financial system contributing to its stability, it has adopted a comprehensive set of operational procedures creating a stable operational framework providing the Board of Directors, Senior Management, and staff the knowledge of the risks inherent in OMIClear's operations, and an understanding of the process used to manage those risks.

The adoption of formal and written operational procedures allows the monitoring of how effective OMIClear is at responding to risk and provide stakeholders with increased confidence in OMIClear's governance and ability to achieve its objectives.

The framework applicable to OMIClear and the procedures and governance arrangements adopted by it protect the participants and other stakeholders and support financial stability and other relevant public interest considerations.

### Key Consideration 2

*An FMI should have documented governance arrangements that provide clear and direct lines of responsibility and accountability. These arrangements should be disclosed to owners, relevant authorities, participants, and, at a more general level, the public.*

OMIClear Governance Arrangements Framework is relevant to expedite the purpose and goals of the company in a manner consistent with the activities undertaken.

OMIClear has adopted a model that comprises the best practices within CCPs in the European Union. The model observes, on one hand, the criteria and legal and regulatory requirements set forth in EMIR and in RTS 153/2013, related to organisational requirements and, on the other hand, takes into consideration the key specificities that derive from OMIClear's position within the OMI Group.

The resulting corporate governance model is characterized by having the general and operational management of the company under the responsibility of the Board of Directors,



formed by the Chairman, Vice-Chairman (these two with executive functions) and four members, two of which are independent.

In addition to the Board and the General Assembly, other corporate bodies include the Nomination, Remuneration and Sustainability Committee, the Risk Committee, the Audit and Compliance Committee, and the Clearing and Settlement Committee. OMIClear shareholders and corporate bodies' structure are public disclosed in OMIClear website.

The appointment of the members of the corporate bodies of OMIClear follows the procedures established by the law and internal regulations and is subject to initial and ongoing evaluation of fitness and propriety, in accordance to the CMVM and ESMA recommendations.

Besides that, OMIClear's Governance Arrangements Framework establishes, in a clear and direct way, the reporting lines between the senior management and the Board of Directors.

OMIClear's internal control systems and internal governance follows the three lines of the defence model. The first line is composed of the business generating units and related areas, which generate risk for the Company and which are primarily responsible for the identification, assessment, monitoring and control of the risks they incur. The second line comprises the support and control functions that include, inter alia, the functions of risk management and compliance functions, which interact with the first line functions with a view to the adequate identification, assessment, monitoring and control of the risks inherent to the activity developed by the first-line functions. The third line is the internal audit function, which carries out independent and risk-oriented analysis and monitoring

OMIClear Governance Arrangements Framework is updated regularly and is subject to an annual review by Portuguese Securities Commission Market (CMVM).

Accountability to stakeholders is ensured through the disclosures in its public website, the Agent Committees information obligations of the company toward its shareholders and dialogue with participants and the CMVM and within the Risk Committee.

OMIClear is strongly committed to maintain an effective and clear communication process with its Participants, sending regular market updates, reporting in advance amendments to rules, and organizing regular Clearing and Settlement Committee meetings, which is composed by clearing members representatives to discuss clearing and settlement of derivatives and other products, new products design, market developments and solutions testing and analysis, OMIClear rules and any other matters that might impact OMIClear's activity and services.

### **Key Consideration 3**

*The roles and responsibilities of an FMI's board of directors (or equivalent) should be clearly specified, and there should be documented procedures for its functioning, including procedures to identify, address, and manage member conflicts of interest. The board should review both its overall performance and the performance of its individual board members regularly.*



The roles and responsibilities of OMIClear Board of Directors are clearly specified and documented in the Law, the Articles of Association, the regulations of the Board of Directors and in OMIClear's Governance Arrangements Framework.

The Regulations of the Board of Directors are constructed in compliance with Portuguese Companies Code and with the organizational requirements set forth in Commission Delegated Regulation (EU) No 153/2013 of 19 December 2012 supplementing EMIR.

Furthermore, the Board of Directors have established specialised committees, (e.g. Audit and Compliance Committee and the Nomination, Remuneration and Sustainability Committee) composed by non-executive and/or independent directors to ensure the transparency and accountability of the Board of Directors to the shareholders of the company have been properly handled within the company and the evaluation of its members.

The Nomination, Remuneration and Sustainability Committee has a central role in preparing and proposing the selection and evaluation policy and regulation of the members of the Board of Directors, of the external auditor (sole auditor) and of the Chief Operating Officer, which shall ensure the effective compliance with the criteria of suitability and independence legally provided and promote the diversity of qualifications and competences required for the exercise of such functions at the Company's level, setting goals for gender representation and seeking to foster an increase of the number of underrepresented people in order to achieve these goals, taking into account the orientations of the Nomination, Remuneration and Sustainability Commission of OMI Group, provided they do not conflict with legal requirements applicable to the Company.

Also, a supervisory activity of the Board of Directors is carried out by the non-executive members of the Board of Directors. The group of non-executive directors monitors the overall performance of the Board of Directors and examines the functioning of the corporate governance system.

The Board of Directors have also approved a Conflicts Interest Policy establishing the rules applicable to the prevention, identification and management of any potential or effective conflicts of interest that may arise. This policy considers the nature, scale and complexity of OMIClear's business, as well as the circumstances that may give rise to a conflict of interests resulting from the structure and activities of OMIClear in the market and it applies to all persons, directly or indirectly, involved with OMIClear, namely the Board of Directors.

#### **Key Consideration 4**

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*The board should contain suitable members with the appropriate skills and incentives to fulfil its multiple roles. This typically requires the inclusion of nonexecutive board member(s).*

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OMIClear Board of Directors consists of six members, two of which, the Chairman and Vice-Chairman, assume executive functions, and four other non-executive members, two of which are independent, ensuring the effective supervision and assessment of the activities of the executive members.

The assessment of the independence of company directors is based on the criteria set out in Article 2 (28) of EMIR, and also according with the relevant provisions of the Portuguese Commercial Companies Code, but it means that, the independent members of the Board shall not have been engaged, in the five years prior to being appointed, in business, family or other relationships that could imply a conflict of interest with OMIClear, with the shareholders controlling it or with its management or its clearing members. Independent directors shall not be engaged in the business performance of OMIClear.

The election of the members of the company's Board of Directors falls within the authority of the General Assembly, therefore the shareholders have a decisive role in the selection process of directors which ensures that the members of the Board meet the requirements established in the EMIR regarding suitability and experience.

OMIClear members of the Board of Directors fully comply with the provisions demonstrating appropriate experience in the field of financial services, risk management and clearing services being reputed academics and having long-standing experience in management positions in international institutions, financial institutions and regulatory authorities.

All OMIClear Board of Directors members are also subject to an assessment process with the Portuguese Securities Market Commission (CMVM) regarding their professional qualifications and suitability before assuming their position.

### **Key Consideration 5**

*The roles and responsibilities of management should be clearly specified. An FMI's management should have the appropriate experience, a mix of skills, and the integrity necessary to discharge their responsibilities for the operation and risk management of the FMI.*

The roles and responsibilities of OMIClear senior management is fully outlined in OMIClear Governance Arrangements Framework in accordance with EMIR organisational requirements.

The senior management structure of OMIClear is comprised by the Chairman and Vice-Chairman of the Board of Directors and by the Chief Operating Officer, Chief Compliance Officer, Chief Risk Officer and Chief Technological Officer.

As stated above, OMIClear's Board of Directors is appointed by the General Meeting of Shareholders, being their executive members along with the senior management and other key officers, responsible for day-to-day management of the Company, based on the competences set forth by the law, the internal policies and rules and on power of attorneys. The Chief Operating Officer is indicated by the Board of Directors under its authority to define the internal organization of OMIClear. The Chief Operating Officer is empowered to act on behalf of OMIClear by means of a power of attorney approved and granted by the Board of Directors, and this power of attorney only allows the managing director to implement and execute board decisions but not to resolve and decide on those matters. The managing director is, as such, subordinated and subject to the direction powers of the Board of Directors. The Chief Risk Officer and the Chief Compliance Officer are appointed by the Board of Directors.

OMIClear senior management is also subject to the supervisory activity performed by OMIClear non-executive and/or independent members of the Board of Directors.

The members of the senior management, just like the Board of Directors members, are subject to an internal assessment process regarding their professional qualifications and suitability before assuming their position and are registered in the Portuguese Securities Market Commission (CMVM).

### **Key Consideration 6**

*The board should establish a clear, documented risk-management framework that includes the FMI's risk-tolerance policy, assigns responsibilities and accountability for risk decisions, and addresses decision making in crises and emergencies. Governance arrangements should ensure that the risk-management and internal control functions have sufficient authority, independence, resources, and access to the board.*

OMIClear's risk management is focused on the most directly involved areas in its core activity as a CCP. As such, great emphasis is placed on credit and market risks for products in which it assumes the role of CCP.

The management of these risks is adequately set out in the OMIClear rules and is extensively and specifically dealt in OMIClear Risk Management Framework.

OMIClear has a permanent, effective and independent risk function, responsible for designing and implementing prudent risk management methodologies, which is coordinated by the Chief Risk Officer (CRO). The CRO is responsible for overseeing that the risk management framework established by the board, including its policies and procedures is adequately implemented. The CRO has a direct access to the Board of Directors and Risk Committee to report, interact and make proposals regarding the relevant risks affecting the CCP and how their management is being conducted. As such, the CRO reports to the board either directly or through the chair of the risk committee.

The Risk Committee is also a relevant element of the risk management of the CCP. The Risk Committee is responsible for advising the Board of Directors on any matters that may have an impact on the risk management policy, particularly on OMIClear's risk management model and on its global risk management policy.

The Risk Committee is composed of seven (7) members, all appointed by the Board of Directors, with the following distribution: (i) two independent members of OMIClear Board of Directors, in accordance with the applicable rules, one of them being named the Risk Committee chairman by the Board of Directors; (ii) three elements designated by the clearing members; (iii) two elements designated by the trading members representing clearing members' clients.

OMIClear has also established a crisis sub-committee which is a sub-group of the Risk Committee and aims to assist OMIClear, when requested, in the resolution of a default of a clearing member or another counterpart of OMIClear, particularly in the reconstruction of its

portfolio of positions, in the close-out of such positions, in its hedging, or in the portability of customer positions, also in a settlement default, including overseeing the default procedures adopted by the OMIClear, or any other critical situations to the safety of OMIClear, the market or the services, for which OMIClear requests support. The crisis sub-committee is composed of the three Risk Committee members that are nominated by the clearing members.

OMIClear Governance Arrangements Framework ensures that control functions have sufficient authority and are independent from other OMIClear functional units. As stated before, OMIClear's internal control systems and internal governance follows the three lines of the defence model, where the second and third line of defence are attributed to autonomous and segregated organic units, adequately staffed, for the size and risk of OMIClear.

The responsibility of the Chief Compliance Officer (CCO) is to monitor the risk of non-compliance and mitigate the legal and regulatory risk of policies and procedures developed and/or adopted by OMIClear and its employees and manage and oversee that OMIClear complies with its legal obligations. The CCO reports directly to the Audit and Compliance Committee and to the Board of Directors.

The Chief Internal Audit Officer (CIAO) is responsible for checking the procedures, activities and tasks of every OMIClear Department, and for preparing and executing regular internal audits. The CIAO is independent from the entire organisational structure and reports directly to the Audit and Compliance Committee and to the Board of Directors.

Regarding the CCO and CIAO functions, the Audit and Compliance Committee is responsible, for monitoring the efficiency of the internal audit and compliance activities, reviewing the annual internal audit and compliance plan and discussing with the CCO and the CIAO any significant findings and recommendations arising from their activities. The Audit and Compliance Committee is composed of 3 Board Members, 2 of them independent, which are appointed by the Board of Directors.

### **Key Consideration 7**

*The board should ensure that the FMI's design, rules, overall strategy, and major decisions reflect appropriately the legitimate interests of its direct and indirect participants and other relevant stakeholders. Major decisions should be clearly disclosed to relevant stakeholders and, where there is a broad market impact, the public.*

OMIClear provides regularly to its Participants comprehensive information on its services, market updates, notifications to future rules amendments and relevant risk management indicators.

Information to Participants is provided through OMIClear website, notification emails, and by holding committees with clearing members representatives were the design of services, rules, risk matters, overall strategy and major decisions are thoroughly discussed.

Also, a number of OMIClear committees such as the Risk Committee and the Clearing and Settlement Committee are composed by clearing members' representatives providing to all

relevant stakeholders regular and updated information as well as an opportunity to contribute in services developments, upcoming changes and major decisions taking place in OMIClear activity.

In the event of a change to the Rules, it is made an analysis, which main conclusions are drawn into the explanatory note of new piece of regulation identifying the reasons for the proposed change, including a consideration of possible alternatives, an evaluation of the financial and human resources required to carry out the proposal, and the expected benefits of the change and the identification of the impact of the alteration on Market Participants. This process is established in an internal procedure which also defines the responsibility for their review and approval.

### Assessment of principle:

Observed
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## 3.3 Principle 3: Framework for the comprehensive management of risks

***An FMI should have a sound risk-management framework for comprehensively managing legal, credit, liquidity, operational, and other risks.***

### Key Consideration 1

<i>An FMI should have risk-management policies, procedures, and systems that enable it to identify, measure, monitor, and manage the range of risks that arise in or are borne by the FMI. Risk-management frameworks should be subject to periodic review.</i>
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As a central counterparty clearing house (CCP) authorised under EMIR, OMIClear has a sound framework for the comprehensive management of all material risks. In that regard OMIClear has established documented policies, procedures and systems to identify, monitor and manage such risks.

OMIClear takes great care to mitigate risk and ensures that appropriate measures are taken to avoid and reduce or intentionally take on risk. The aim is to make use of suitable safeguards and control measures such as guidelines and procedures, the segregation of functions, the principle of dual control, limit restrictions and also business continuity management to reduce the probability, frequency and level of potential losses from the corresponding risk cases for OMIClear.

The Board of Directors is responsible for the implementation of the strategy and for OMIClear's risk management system.

OMIClear breaks down risks into the following categories, each one of them managed according to an adequate set of internal policies, procedures, plans and clearing rules:

- ⊕ **Credit risk** - also addressed in Principle 4, this risk is one of the most important risk types of a CCP. OMIClear manages credit and counterparty risks through an integrated strategy comprising a wide set of risk management tools, including:
  - OMIClear's credit risk policy that ensures the financial integrity of entities with which the CCP maintains a clearing, custodian or other relation and that demands a close monitoring of the risk exposures resulting from OMIClear's interaction with such entities which shall not overpass the thresholds defined by OMIClear, depending on the credit risk level assigned to each one of them;
  - OMIClear's published rules that establish several lines of defence to mitigate the credit risk such as a robust margin model, dedicated own funds to face a default event, a clearing fund (including a pre-funded component and a not-pre-funded component) and an appropriate default procedures plan;
  - OMIClear's collateral rules and investment policy that define the type of assets accepted by the CCP (only cash or European sovereign debt accepted by ECB, with low credit risk); the concentration limits applied to each eligible custodian bank, the haircuts applied to sovereign debt received as collateral (directly from clearing participants or by the custodian banks in repo operations). The combination of these rules protects OMIClear against the default of either the clearing member or the custodian bank.
  
- ⊕ **Operational risk** – also explained in Principle 17 which is globally managed through an internal policy that identifies a set of different risk scenarios for OMIClear (concerning the information systems, the compliance with applicable regulations and laws, the activity of its human resources, the delegation of some services to external providers, the clearing system capacity to process the required operations, potential disruption of the physical infrastructures and risk of fraud) that might generate operational risk to OMIClear. In this policy OMIClear also sets up the mechanisms for evaluating and monitoring each type of sub-risk identified, the reporting lines inside the CCP and the methodology to determine the capital required to cover the operational risk.
  
- ⊕ **Liquidity risk** - further detailed in Principle 7. In this risk category OMIClear has in place a liquidity plan that establishes the sources of liquidity risk, namely the daily settlement process and the default of a clearing member. Bearing in mind OMIClear's margin, settlement and collateral models (described in Principle 6, 9 and 5, respectively), its strategy is specially focused on the convertibility level of collateral (both members' collateral and collateral delivered by custodian banks resulting from OMIClear's cash investments) into cash and the time needed for such conversion. In this context, to prevent the CCP from liquidity shortfalls, OMIClear daily assesses the liquidity needs based on stressed scenarios and assures that the liquidity mechanisms in place are sufficient to cover such needs, implementing appropriate exposure and concentration limits and frequently testing these mechanisms.



- ⊕ **Market risk** – the daily cash settlement of members’ profits and losses arising from price variations (mark-to-market) and the margin model (in particular the initial, variation margin and options premium margin) are specifically designed to capture the key factors that affect the value of the derivatives contract, the so called “market risk” and this is thoroughly explained in Principle 6 (Margin). Besides the market risk inherent to the fluctuations of contracts value, this type of risk also impacts the assets accepted as collateral by OMIClear. As discussed in detail under Principle 5 (Collateral) OMIClear captures this risk by applying duly haircuts.
- ⊕ **Business risk** – OMIClear identifies monitors and manages business risk, including the risk resulting from unfavourable changes in the economic and financial environment in EU and particularly in Iberia, strong competition among European CCPs and among trading venues (affecting the markets that OMIClear serves: OMIP, MIBGAS and MIBGAS Derivatives), and uncertainties in financial and energy market regulation. As described in Principle 15, business risk is estimated based on reasonably foreseeable adverse scenarios relevant to its business model. Based on such scenarios, the capital necessary to cover losses resulting from business risk is estimated by OMIClear.

In operational terms, the Board of Directors is directly responsible for assessing commercial risk. In agreement with the risk management principles in force, the follow-up, monitoring and control of credit, liquidity, market and operational risks, as well as the reporting to the Board of Directors and the Risk Committee, is carried out by the Chief Risk Officer (CRO) with the support of the Clearing Department.

OMIClear uses the regulatory own funds as the risk-bearing capacity for its economic capital. For control purposes, OMIClear regularly calculates the ratio of economic capital to risk-bearing capacity, or “utilisation of risk-bearing capacity”, as an indicator.

In its risk management, OMIClear has a holistic approach and considers the risk it bears from its relationship with its Clearing Members, Clients or other entities.

In this capacity OMIClear uses a comprehensive Risk Management Framework composed of objectives, measures, and tools defined at the level of OMIClear. The Risk Management Framework ensures that all risks are recorded, assessed and controlled, and that a consolidated report on these risks is submitted to the Executive Board of OMIClear.

Risks are openly and fully reported to the responsible level of management. The Board of Directors is informed fully and timely about OMIClear’s risk profile, relevant risk(s) as well as about relevant losses. The internal reporting and communication are complemented by external reporting, i.e. interim and annual reports.

Risk management policies, procedures and systems are developed by the CRO and CIAO of OMIClear, reviewed by internal stakeholders, consulted with the Risk Committee and approved by the Executive Board of OMIClear.

Additionally, the CIAO is responsible for assessing the organisation's risk management framework, control and governance processes, and for determining whether:

- ⊕ Risks are adequately identified and mitigated by appropriate controls;
- ⊕ Significant operational information is accurate and reliable;
- ⊕ Resources are used efficiently and are adequately protected; and
- ⊕ The organization is in compliance with internal policies and procedures.

Risk management policies, procedures and systems are reviewed annually and designed to account for fluctuations in risk intensity. OMIClear's Risk Management Framework is designed to deal with various stressed market situations and is not a static framework.

Changed environments and market practices will be reflected and included in the framework via regular or ad-hoc review cycles, if necessary.

## Key Consideration 2

*An FMI should provide incentives to participants and, where relevant, their customers to manage and contain the risks they pose to the FMI.*

OMIClear ensures that clearing members are able to properly manage and contain the risks they pose to the CCP through a wide set of requisites and tools, in particular by:

- ⊕ Including in its clearing rules and admission agreement signed by the clearing members clear and transparent provisions regarding the obligations they shall fulfil with the CCP, under that role, on a continuous basis.
- ⊕ Providing them with relevant information regarding the CCP's risk management framework through different means such as the clearing rules disclosed on OMIClear website, the meeting of risk committee and clearing and settlement committee, bilateral meetings, email etc. OMIClear's clearing members are aware of the key aspects of OMIClear's risk management framework (aligned with other EMIR compliant CCPs), and incentivised to cope with the rules in place, which generally covers:
  - A margin model focused on CCP's protection against the credit risk arising from the cleared derivatives positions on an efficient manner. Margining encompasses the entire process of measuring, calculating and requiring the collateral to ensure that all financial commitments related to the open positions of the Clearing Members or their clients can be offset within a short time period. Margin requirements are calculated in close to real time during the clearing day and adjusted where applicable.
  - A clearing fund based on a mutualized principle, ensuring that members are incentivized to care about the risk they pose to the CCP. Contributions to the clearing fund of non-defaulting clearing members may be used as financial resources to absorb losses that go beyond the margins and clearing fund contribution of the defaulter and OMIClear's own contribution to the default waterfall. OMIClear's clearing fund is validated on a daily basis (through the daily stress tests under extreme but plausible market conditions) and calibrated on a monthly basis. The clearing fund



portion required to each clearing member depends on its scale of contribution to OMIClear's risk exposure.

- A sound collateral value assessment. OMIClear applies prudent haircuts that mitigate market risk for the accepted sovereign debt accepted as collateral (considering both yield volatility factor and asset liquidity factor) further described in Principle 5 (Collateral).
- ⊕ Providing them with close-to-real-time information on trades, positions and margin calls throughout a trading session disclosed in a tailor-made and state-of-the-art system which allows its users (both clearing members and its clients) the ongoing monitoring of their positions, the inherent exposure before OMIClear and also the coverage level of their risk through the collateral they post with the CCP (permanently updated operational limit indicators displayed in the intraday and end-of-day system reports). The "MiClear" system includes the following information that OMIClear considers as crucial for members' tracking capacity on their risk profile and their incentive to manage their exposures towards the CCP:
  - Trades and net position per instrument contract;
  - Margins (intraday and end-of-day updates);
  - Intraday prices that feed intraday margins. Users are able to monitor the intraday price variations resulting from market activity in the exchange and its impact on the margins. A specific intraday margin called "non-realized profit and loss" provides clearing members with provisional mark-to-market amounts promoting to better monitoring of the updated value of their positions cleared in the CCP;
  - Final settlement prices that are used in mark-to-market and delivery settlement and final clearing prices that are used in end-of-day margin calculations;
  - Updated collateral amount deposited with OMIClear. If deposited by means of financial instruments, OMIClear updates on a daily basis the value of the asset based on the market value, interest accrued and discounted by the applicable haircuts. If deposited by means of bank guarantees, OMIClear updates on a monthly basis discounted by the applicable concentration limits;
  - Ongoing updates on members' "Daily Operational Limits" (DOL) across the session - balance of clearing member's deposited collateral or collateral deposited by clearing member's clients with segregation regime and its responsibilities before OMIClear. Email alerts are sent whenever DOL limits become close to the threshold established in OMIClear's rules;
  - Option to configure margin limits per clearing account. Useful for General Clearing Members providing clearing services to clients. Trades generating margin requirements above the client limit go will generate email alerts if such client limit is surpassed and subsequent inhibition of trading activity will be triggered by OMIClear.
- ⊕ Providing them an initial margin simulator through which user can easily simulate the margin required for a given portfolio and see details on the margin calculation.

- ⊕ Providing them an expert, rigorous and responsive support. Clearing Members and their clients can contact directly the clearing desk phone number throughout the clearing session and get support on any matter related to the information provided in MiClear system or any other clearing or settlement issue related to their activity in OMIClear;
- ⊕ Providing, in a useful friendly way, detailed backoffice information to clearing members and its clients which facilitates their reconciliation, accounting and financial processes.

OMIClear has established a procedure to ensure that the information provided by Clearing Members are update and that they remain compliant with the participation requirements set out by OMIClear. In addition, an important part of OMIClear's risk management framework consists of the continuous monitoring of clearing members' creditworthiness based not only on external credit ratings but also on the company risk scoring analysis based on the updated financial results. This internal analysis performed by OMIClear also includes a daily supervision of some financial indicators of the clearing member (such as daily price variations on respective shares, bonds and credit default swaps) through a Bloomberg terminal.

Furthermore, OMIClear is focused on ensuring that its clearing members have a clear understanding of OMIClear's rules and procedures. OMIClear informs and involves its members in the design of new products, rules and system features. This is achieved through participation of members and clients in OMIClear's Clearing and Settlement Committee where relevant modifications on the services and products provided as well as pertinent updates on clearing rules and clearing system are presented and discussed. In addition, the Risk Committee (represented by some of the Clearing Members and some of its clients from both financial and energy sectors) shall be consulted and give an opinion on subjects that might have impact on OMIClear's risk management framework before its implementation. Moreover, some of the key elements of the CCP's risk framework (like margin model, risk testing methodologies, liquidity plan, default procedures and collateral haircuts) are subject to external independent validations which are reported to OMIClear's national competent authority (CMVM).

In addition, OMIClear has established a Crisis Sub-Committee (CSC) to involve its clearing members and to ensure the availability of the best possible knowledge and expertise in case of a default. The CSC is a panel composed by the three Risk Committee members nominated by the clearing members that is continuously defined, but only temporarily convened, to assist the CCP with regards to any relevant matter of the default management process. Members of the CSC will assist OMIClear in the resolution of a default, particularly in the reconstruction of positions portfolio, positions closing-out or hedging process and the positions portability to a backup clearing member.

### Key Consideration 3

*An FMI should regularly review the material risks it bears from and poses to other entities (such as other FMIs, settlement banks, liquidity providers, and service providers) as a result of interdependencies and develop appropriate risk management tools to address these risks.*

OMIClear is exposed to risks resulting out of its activities as central counterparty and its treasury activities. According with its Credit Risk Policy, OMIClear considers these risks on a consolidated basis, by considering the multiple roles that an entity may assume with the CCP (e.g. clearing member, custodian bank, liquidity provider, etc.) and combines the resulting risk to one exposure figure towards the respective counterparty. This global exposure is monitored on an ongoing basis, and it shall not surpass a credit risk threshold that was assigned to each counterparty based on its credit quality (which relies on quantitative and qualitative metrics, reviewed by OMIClear's risk department on a regular basis). Any breach is reported to the Chief Risk Officer and to the Executive Board of OMIClear and can be solved by a collateral reinforcement, reduction of the risk exposure before OMIClear, depending on the role assumed by the counterparty.

Besides the above-mentioned credit risk policy that seeks to manage the risk posed by several counterparty types of OMIClear, the following shall be mentioned concerning the risk mitigation on the interactions between the CCP and other entities:

- ⊕ System providers - system interdependencies are considered by defining mission critical units, business functions and related systems for OMIClear. By saying this, critical system providers are subject do regular monitoring and service evaluation and are binded by contractual security clauses. Additionally, risk analyses and the Business Continuity Management System (BCMS) take into account external links and interdependencies with financial infrastructures and functions or services which have been outsourced to third-party providers. This is further addressed in Principle 17 (Operational Risk).
- ⊕ Settlement system – OMIClear processes the cash settlements of the cleared positions only in Euro at TARGET system, one of the three largest wholesale payment system in the world, based on single technical interface, highly reliable and that promotes the reduction of systemic risk. As described in Principle 8 (Settlement Finality) and Principle 9 (Money Settlements), TARGET is a special settlement system which is designated by Settlement Finality Directive, therefore reducing CCP's settlement risk. OMIClear's access to TARGET system is SWIFT-based thus comprising the highest levels of system security, including password management, physical security, user profile setup, encryption, SSL setup, Firewall rules, certificate management and awareness.
- ⊕ Settlement banks – OMIClear reduces the settlement risk by requiring these banks to be participants of TARGET and to authorize OMIClear for the automatic debit of their "RTGS accounts" in such settlement system under settlement procedure B ("simultaneous multilateral settlement"). OMIClear's rules foresee several scenarios of payment default caused either by the settlement banks or by its clients (clearing members that are not banks participating in TARGET) and apply penalties and sanctions for each scenario.
- ⊕ Custodian banks for cash investments – besides de credit risk that is captured by OMIClear's credit risk policy referred above, the contractual arrangements between

OMIClear and these banks for repo operations are legally effective and include specific default provisions. Contracts are of GMRA type (*Global Master Repurchase Agreement* published by the International Capital Market Association - ICMA). Collateral accepted by OMIClear for the purpose of repo agreements must comply with the same risk conditions as the one accepted from its participants, i.e. must entail low credit risk and avoid wrong way risk as referred in Principle 5 (Collateral).

- ➡ Custodian entities for financial instruments – in accordance with EMIR rules, OMIClear only deposits financial instruments with Central Securities Depositories (CSDs), i.e. financial market infrastructures that are subject to similar regulation, obligations and prudential standards as the ones applicable to CCPs.
- ➡ The Business Continuity Management System (BCMS) is reviewed on an annual basis and the concentration risks is monitored daily.

#### Key Consideration 4

*An FMI should identify scenarios that may potentially prevent it from being able to provide its critical operations and services as a going concern and assess the effectiveness of a full range of options for recovery or orderly wind-down. An FMI should prepare appropriate plans for its recovery or orderly wind-down based on the results of that assessment. Where applicable, an FMI should also provide relevant authorities with the information needed for purposes of resolution planning.*

As a central counterparty OMIClear has established a sound framework of safeguards - lines of defence - to protect its clearing members, the clearing house itself and the overall marketplace. The lines of defence to cope with severe market driven events are:

OMIClear's Default Waterfall	Contributed by:	Purpose	Description
1. Membership criteria	OMIClear / Clearing Members	To ensure a sound structure of the CCP	➡ OMIClear only accepts as clearing members entities with a reduced credit risk based on a robust internal risk assessment (Credit Risk Policy).
2. Margins of defaulting clearing member	Clearing Members	To cover potential losses of risk takers ("defaulter pays" principle)	Margin model composed by: <ul style="list-style-type: none"> <li>➡ Initial Margin methodology based on member's portfolio ("SPAN" concept), risk parameters that rely on adequate historical periods of market movements, suitable confidence interval and liquidation period, avoid procyclicality effects, incorporate reliable price correlations for margin reductions and prevent concentration risk.</li> <li>➡ Variation Margin / Premium Margin / MtM - covering market risk resulting from market price fluctuations (collateralized or daily cash settled).</li> <li>➡ Physical Delivery Margin – margin that aims to cover a specific Risk related to the default on positions under delivery regarding gas</li> </ul>

			<p>derivatives contracts with physical delivery at the Spanish hubs (PVB or TVB). It is related to the economic penalty ('Tarifa de Desbalance') for agents' imbalances according to the Spanish normative.</p> <ul style="list-style-type: none"> <li>➤ Settlement / Billing Margin that eliminate CCP's settlement risk.</li> </ul>
3. Additional guarantees (if applicable) of the defaulting clearing member			<ul style="list-style-type: none"> <li>➤ Additional collateral required by OMIClear for clearing members with equity capital or risk level values below the pre-defined membership thresholds.</li> </ul>
4. Clearing Fund contribution of the defaulting Clearing Member			<ul style="list-style-type: none"> <li>➤ After exhausting margins and additional guarantee of defaulting clearing member its contribution to the clearing fund will be used to cover the losses resulting from the default event.</li> </ul>
5. OMIClear dedicated own resources	OMIClear	To incentivise robustness of OMIClear's risk management framework and alignment between CCP and market interests ("CCP pays" principle)	<ul style="list-style-type: none"> <li>➤ OMIClear's dedicated own funds (SIG – Skin in the Game amount + autonomous reserve) are put at risk in default waterfall before accessing to non-defaulting clearing members funds. SIG amount shall be replenished within 20 business days.</li> </ul>
6. Clearing Fund contributions of non-defaulting clearing members (pre-funded)	Clearing Members	To cover potential losses of risk takers (mutualisation; "survivor pays" principle)	<ul style="list-style-type: none"> <li>➤ Clearing members must contribute with pre-funded collateral to OMIClear's clearing fund, proportionately to their recent risk profile (initial margin amounts) based on a mutualisation principle.</li> </ul>
7. OMIClear additional dedicated own resources	OMIClear	To incentivise robustness of OMIClear's risk management framework and alignment between CCP and market interests ("CCP pays" principle)	<ul style="list-style-type: none"> <li>➤ OMIClear's additional dedicated own funds (SSIG – Second Skin in the Game amount) are put at risk in default waterfall before accessing to not pre-funded non-defaulting clearing members funds. SSIG amount shall be replenished within 20 business days.</li> </ul>
8. Additional responsibilities of non-defaulting clearing members (not-pre-funded)	Clearing Members	To cover potential losses of risk takers (mutualisation; "survivor pays" principle)	<ul style="list-style-type: none"> <li>➤ In case the clearing fund contributions of non-defaulting CMs and SSIG are exhausted OMIClear has assessment powers to request them additional collateral (not pre-funded).</li> </ul>
9. OMIClear equity capital	OMIClear	-	<ul style="list-style-type: none"> <li>➤ If all the resources from 2 to 8 are exhausted the last CCP's line of defence is its equity capital</li> </ul>

The combination of OMIClear's admission requirements, margining procedures and risk management framework promotes a safe, robust and trustworthy field to perform its clearing and settlement activities.

To address the risks of disruption of clearing systems caused by hardware, network, software or even terrorist attack; disruption of services from external providers, including utilities services OMIClear has a Business Continuity Management System (BCMS) in place, where annual recovery tests involving critical providers are carried out.

In addition, OMIClear takes into account dependencies on external providers, including utilities services, when assessing risks that may potentially prevent it from being able to provide its critical operations and services as a going concern.

OMIClear determined and documented the potential procedure and time period necessary to wind-down or restructure its business including a description of the underlying assumptions.

OMIClear also prepared a recovery plan in accordance with the Minimum Requirements for the Design of Recovery Plans. The main goal of the plan is to identify recovery options that strengthen the financial and operational robustness of OMIClear in potential stress situations.

The most essential part of restructuring is the application of several recovery tools, since they will protect the soundness of OMIClear in a stressed situation.

The recovery plan is reviewed at least once a year and each time a significant change is introduced in any of the CCP critical services or when a key element of the recovery plan (stress scenario, trigger or recovery tool) suffers any material change.

Changes to the above-mentioned policies and procedures are discussed by the Risk Committee and approved by the Board of Directors, with the CMVM being informed prior to their entry into force.

#### Assessment of principle:

Observed
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### 3.4 Principle 4: Credit Risk

*An FMI should effectively measure, monitor, and manage its credit exposures to participants and those arising from its payment, clearing, and settlement processes. An FMI should maintain sufficient financial resources to cover its credit exposure to each participant fully with a high degree of confidence. In addition, a CCP that is involved in activities with a more-complex risk profile or that is systemically important in multiple jurisdictions should maintain additional financial resources sufficient to cover a wide range of potential stress scenarios that should include, but not be limited to, the default of the two participants and their affiliates that would potentially cause the largest aggregate credit exposure to the CCP in extreme but plausible market conditions. All other CCPs should maintain additional financial resources sufficient to cover a wide range of potential stress scenarios that should include, but not be limited to, the default of the participant and its affiliates that would potentially cause the largest aggregate credit exposure to the CCP in extreme but plausible market conditions.*



## Key Consideration 1

*An FMI should establish a robust framework to manage its credit exposures to its participants and the credit risks arising from its payment, clearing, and settlement processes. Credit exposure may arise from current exposures, potential future exposures, or both.*

OMIClear describes the management of credit exposures and risks within the risk management framework already referred to in Principle 3. The risk management framework is reviewed by the Risk Committee and Board of Directors at least annually or more often to reflect significant changes in policy (e.g., when a new product is introduced) and is subject to the approval of the Board of Directors.

The risk management framework describes OMIClear's approach for managing risks facing the CCP, including several internal policies that address the following types of risks:

- Credit Risk;
- Operational Risk;
- Liquidity Risk;
- Market Risk;
- Commercial Risk.

Procedures underlying the abovementioned policies are defined by OMIClear and updated at least annually or when occur significant changes to the overall risk management practices. Such procedures define the way to monitor and manage each of the abovementioned risks by comprising operational details to be carried out by the staff of the departments concerned (e.g.: risk, clearing) and the frequency required for each process.

In addition to the risks addressed in the risk management framework, OMIClear has in place a Credit Risk Policy (CRP) which describes its methodology for managing credit risk exposures arising from its relationship with several counterparties such as Clearing Members and Custodian Banks where the collateral is kept or invested. Furthermore, the rules and procedures established in OMIClear's Investment Policy (approved by its Risk Committee, as described further in Principle 7) also promote a credit risk mitigation by limiting the investment of CCP's cash and securities (either from own resources or from members' collateral) in the most prudent manner.

The credit risk is one of the key elements of the risk strategy to fully cover the counterparty risk by building several lines of defence, which are further described in Principle 3 (key consideration 4).

## Key Consideration 2

*An FMI should identify sources of credit risk, routinely measure and monitor credit exposures, and use appropriate risk-management tools to control these risks.*

In developing an appropriate risk management framework, OMIClear has identified a number of credit risks faced in the normal course of its business. In general, these risks arise from the

relationships held by the CCP and other counterparties under its normal activity as clearing house and central counterparty (CCP). In terms of credit risk OMIClear focused on the risks arising from the following type of entities:

- ➊ Clearing Members – in case on non-compliance of the obligations with the CCP, according to the established rules;
- ➋ Custodian Banks – arising from the potential non-performance of their agreements to provide deposit arrangements for OMIClear's cash (own cash or cash collateral coming from its participants);
- ➌ Bank guarantee issuers<sup>3</sup> – in case on non-compliance of the obligations with the CCP in the event of non-compliance by the Clearing Member it guarantees.

OMIClear performs a credit risk assessment of each entity before entering a contractual relationship with such entity and regularly revise the risk score assigned based on the regular watching of the financial accounts. In terms of credit exposures OMIClear has developed tools to monitor and measure the level of such exposures which vary depending on the role assumed by the counterparty, as follows:

Counterparty Type	Method adopted to measure the credit exposure of the counterparty on a continuous basis
➊ Clearing Members	<ul style="list-style-type: none"> <li>▪ Company financial performance (regular monitoring of financial reports; daily watching of stock and bond prices, and credit default swap price).</li> <li>▪ Members' position portfolios and margins based on close to real time information on prices and incoming trades. System is designed to allow OMIClear to analyse potential risks with a high level of granularity and considering key risk factors such as concentration (on a clearing account and clearing member level).</li> <li>▪ Potential costs of a clearing member under extreme but plausible market conditions (which cover a wide range of stress scenarios) and potential collateral required in case the default is committed by the member itself.</li> <li>▪ Potential costs of a clearing member under extreme but plausible market conditions (which cover a wide range of stress scenarios) and potential collateral required in case the default is committed by another clearing member.</li> </ul>
➋ Custodian Banks	<ul style="list-style-type: none"> <li>▪ Bank financial performance (regular monitoring of financial reports; daily watching of stock and bond prices, and credit default swap price).</li> <li>▪ Non-collateralized operations: total amount invested which is not collateralized.</li> <li>▪ Collateralized operations: difference between the value of the collateral delivered by the custodian banks using OMIClear's haircuts and the one determined based on European haircuts (ECB / CRD IV).</li> </ul>
➌ Bank guarantee issuers	<ul style="list-style-type: none"> <li>▪ Bank financial performance (regular monitoring of financial reports; daily watching of stock and bond prices, and credit default swap price).</li> <li>▪ Potential costs of a clearing member under extreme but plausible market conditions (which cover a wide range of stress scenarios) and potential collateral required in case the default is committed by the member itself.</li> <li>▪ Potential costs of a clearing member under extreme but plausible market conditions (which cover a wide range of stress scenarios) and potential collateral required in case the default is committed by another clearing member.</li> </ul>

<sup>3</sup> Only applicable if this type of asset is accepted by the European regulations.



Regarding the clearing members, as already mentioned in Principle 3, OMIClear can closely observe their risk exposure through several mechanisms, such as the close to real time system updates of members' positions, margins and operational limits based on intraday prices and trades registered throughout the session. Furthermore, not only OMIClear is able to set up risk limits to its Clearing Members but also the latter can impose limits to each client. System automatically checks if the total margin required for an incoming trade complies with such limits. If not, system generates internal email alerts informing the CCP of the risk limit breach and CCP contacts the participant to request a collateral top up. Simultaneously, OMIClear instructs the respective exchanges to forbid the involved participant to register new trades in the relevant market.

The Chief Risk Officer is responsible for observing the credit exposures referred to in the previous table and ensuring that a counterparty's total exposure does not surpass the risk threshold that is assigned. OMIClear's Board of Directors is monthly informed on this analysis.

The financial instruments accepted as collateral either for Clearing Members or Custodian Banks under repo agreements or collateralized deposits - only sovereign debt accepted by ECB - are considered as low credit risk assets. The risk management concerning this topic is further described in the next Principle 5 (Collateral).

Regarding this principle is also worth mentioning that:

- ⊕ OMIClear's published rules that establish several lines of defence such as a robust margin model, dedicated own funds to face a default event, a clearing fund (including a pre-funded component and a not-prefunded component) and an appropriate default procedures plan;
- ⊕ OMIClear is able to trigger exceptional powers in order to mitigate the credit risk. These powers are clearly stated in the Rulebook and Instructions. In particular OMIClear has powers to:
  - Forbid a participant from registering transactions, assuming additional responsibilities and increasing its exposure to risk;
  - Determine the reduction of exposure of a participant to risk, by closing or opening new positions;
  - Prevent the management of positions by a defaulting clearing member and manage them directly;
  - Close out positions of a participant, in case its default or when it becomes necessary or convenient to protect the proper functioning of the CCP;
  - Forbid a participant from performing functions in the service(s) provided by OMIClear;
  - Call for an extraordinary margin to a participant, in the course of a clearing day;
  - Change the operational limits of a participant;
  - Replace the physical settlement of positions with an exclusively financial settlement;
  - Define clearing prices different from those established in the rules;

- Retain the payments to be performed in the daily financial settlement;
- Take any other measure necessary to protect the integrity, proper functioning, security and transparency of the service(s) provided or the underlying market(s).

All the risk tools designed and applied by OMIClear are revised on a regularly basis in order to ensure that it allow the CCP to properly measure the potential risks with the best accuracy and effectiveness across all potential circumstances.

#### Key Consideration 4

*A CCP should cover its current and potential future exposures to each participant fully with a high degree of confidence using margin and other prefunded financial resources (see Principle 5 on collateral and Principle 6 on margin). In addition, a CCP that is involved in activities with a more-complex risk profile or that is systemically important in multiple jurisdictions should maintain additional financial resources to cover a wide range of potential stress scenarios that should include, but not be limited to, the default of the two participants and their affiliates that would potentially cause the largest aggregate credit exposure for the CCP in extreme but plausible market conditions. All other CCPs should maintain additional financial resources sufficient to cover a wide range of potential stress scenarios that should include, but not be limited to, the default of the participant and its affiliates that would potentially cause the largest aggregate credit exposure for the CCP in extreme but plausible market conditions. In all cases, a CCP should document its supporting rationale for, and should have appropriate governance arrangements relating to, the amount of total financial resources it maintains.*

OMIClear has in place a multi-layered solution that entails a variety of tools to cover current and potential future exposures of its participants. As already referred in key consideration 4 of Principle 3, such tools comprise the following CCP safeguards:

- ➡ The daily cash settlement of “mark-to-market” (in case of positions in futures contracts or also called “variation margin” for positions in forward or swap contracts), based on the daily market price variations, ensuring that the market risk of current participants’ exposures is duly measured and funds are moved between those participants accordingly, i.e. the losses of some participants arising from open positions are compensated by the profits of the others; to withstand the market risk arising from intraday price fluctuations there is a specific margin called “non-realised profit and loss margin” meaning that the provisional losses of mark-to-market are computed on a close to real time basis and must be covered with members’ guarantees.
- ➡ Financial resources to cover potential losses of risk takers - “defaulter pays” principle.
  - OMIClear has in place an initial margin methodology based on member’s portfolio (“SPAN” concept), on risk parameters that rely on adequate historical periods of market movements, suitable confidence interval (99% for contracts classified as ETD according to MIFID and 99,5% for contracts not classified as ETD according to MIFID), liquidation period (2 days for normal positions and 3 days for large positions for contracts classified as ETD according to MIFID and 5 days for contracts not classified as ETD according to MIFID) and reliable price correlations for margin reductions, avoid procyclicality effects and accommodates

concentration of positions on an account level and on a member level. This is further described in Principle 6 (Margin);

- The requirement of an “additional guarantee” for clearing members holding an equity capital and/or a risk level that falls below the pre-defined membership thresholds;
- The requirement of a clearing fund contribution (each participant contributes to a total clearing fund proportionately to the risk scale assumed in OMIClear).
- ➊ OMIClear’s dedicated resources (called SIG – ‘Skin-In-the-Game’) to incentivise robustness of CCP’s risk management framework and alignment between CCP and market interests - “CCP pays” principle. According to OMIClear’s Instruction regarding the default management waterfall, these financial resources are only used in case the defaulting member’s resources previously listed have been exhausted and before consuming the resources of the non-defaulting members.
- ➋ Pre-funded amount of Financial Resources to cover potential losses of other risk takers based on a mutualisation approach - “survivor pays” principle).
- ➌ OMIClear’s additional dedicated resources (called SSIG – ‘Second Skin-In-the-Game’) to incentivise robustness of CCP’s risk management framework and alignment between CCP and market interests - “CCP pays” principle. According to OMIClear’s Instruction regarding the default management waterfall, these additional financial resources are only used in case the pre-funded resources of the non-defaulters have been exhausted and before consuming the not pre-funded resources of the non-defaulting members.
- ➍ Not pre-funded amount of Financial Resources to cover potential losses of other risk takers based on a mutualisation approach (called “additional responsibility towards the clearing fund”) in case the additional dedicated resources to solve the default event is exhausted.

The financial resources at OMIClear's disposal are easily accessible: most of the collateral is posted in cash, and non-cash collateral posted in favour of the CCP is easily converted into cash, as well as the CCP's own resources.

The OMIClear’s clearing fund policy is compliant with EMIR regulation, hence based on the following rules:

- The clearing fund amount is sized to cover the potential losses caused by:
  - i. The clearing member with largest exposure; or
  - ii. The second and the third clearing members with largest exposures (if greater than i.).
- The sum of clearing fund amount and OMIClear’s financial resources is sized to enable OMIClear to withstand the default of the two largest clearing members.
- The contribution of each clearing member to the clearing fund is proportional to its exposure towards the CCP. To determine this proportional OMIClear uses the clearing member’s initial margin share (initial margin average on the previous 60 clearing days).
- When conducting its stress tests OMIClear aggregates the results of all clearing members belonging to the same or closely related corporate group.

According to its policy on market and risk testing methodologies, OMIClear calculates the above-mentioned potential losses based on both historical and hypothetical stress scenarios

under extreme but plausible market conditions. OMIClear's risk management has put efforts to come up with a framework for defining such type of stress situations which relies on the most severe market conditions experienced in OMIClear's lifetime and also hypothetical scenarios which are extrapolated from a cautious analysis of historical data of price, volatility, liquidity and correlation factors.

OMIClear also conducts daily stress tests on its liquid financial resources and based on the results obtained, has in place several credit facilities provided by liquidity. These facilities shall be fully repaid as soon as collateral and any financial resources from the waterfall have been realized to cover for the losses incurred as a result of the defaulting member. This is further explained in Principle 7 (Liquidity Risk).

Regarding OMIClear's policy on market and risk testing methodologies, it is duly documented, has been subject to an independent external validation and is revised at least annually by the Risk Committee. This policy contains detailed information on the methodology applied to each type of test performed on the risk model, the frequency of the tests and the disclosure policy of the test results.

To allow for a more comprehensive risk analysis, four layers of risk self-assessment are established:

- First, the executive members of the Board of Directors, accessing full information results;
- Second, the non-executive members of the Board of Directors, accessing anonymised information results;
- Third, the Risk Committee, accessing anonymised information results;
- Fourth, the clearing members, namely within the Clearing and Settlement Committee meetings, accessing aggregate data.

All these four layers of control may ask for clarifications, request additional analysis and make recommendations.

The Risk Committee, which is provided with the risk testing results on a quarter basis, is requested to issue opinions on this matter on the regular meetings including the discussing of the results as well as the evaluation of the need of adaption of the initial margin calculation methodology, the risk parameters in place or the stress scenarios under extreme but plausible market conditions underlying the calculation of the clearing fund.

Concerning the impacts of the test results (including not only stress tests but also back tests, sensitivity tests and reverse stress tests), OMIClear established several types of procedures to be carried out when a non-conformity is detected and the respective governance aspects involved:

Procedure when the risk test results evidence a non-conformity	Governance
<ul style="list-style-type: none"> <li>Revision of the risk parameters.</li> </ul>	Change to be carried out in the short term and to be approved by the Board of Directors without a close involvement of external stakeholders, except for supervision authorities. Its dissemination is assured previously before coming into force and depends on its urgency.
<ul style="list-style-type: none"> <li>Extraordinary margin call.</li> </ul>	
<ul style="list-style-type: none"> <li>Adjustment of the model's assumption. This might be the case when a persistence of signals is identified, such as frequent and unexpected changes in the risk parameters leading, for instance, to a modification of the liquidation period, confidence interval used or other.</li> </ul>	Changes with a more long-term impact and to be approved by the Board of Directors after obtaining the advice of the Risk Committee, which can recommend the involvement of the rest of the members, namely through the Clearing and Settlement Committee, to reach a final decision.
<ul style="list-style-type: none"> <li>Improving of the methodologies, by changing or replacing the installed methods.</li> </ul>	
<ul style="list-style-type: none"> <li>Change of the testing program which can result of the improvement of the control process or of the implementation of a new risk methodology.</li> </ul>	These changes are always approved by the Board of Directors and can be promoted by external stakeholders, namely the Risk Committee.

## Key Consideration 5

*A CCP should determine the amount and regularly test the sufficiency of its total financial resources available in the event of a default or multiple defaults in extreme but plausible market conditions through rigorous stress testing. A CCP should have clear procedures to report the results of its stress tests to appropriate decision makers at the CCP and to use these results to evaluate the adequacy of and adjust its total financial resources. Stress tests should be performed daily using standard and predetermined parameters and assumptions. On at least a monthly basis, a CCP should perform a comprehensive and thorough analysis of stress testing scenarios, models, and underlying parameters and assumptions used to ensure they are appropriate for determining the CCP's required level of default protection in light of current and evolving market conditions. A CCP should perform this analysis of stress testing more frequently when the products cleared or markets served display high volatility, become less liquid, or when the size or concentration of positions held by a CCP's participants increases significantly. A full validation of a CCP's risk-management model should be performed at least annually.*

As mentioned in the previous Key Consideration, the size of OMIClear's Clearing Fund is determined through daily stress tests considering a wide number of scenarios under extreme but plausible market conditions. The total clearing fund in place results from the clearing members with the largest potential losses (top1 or top 2 + top3 if higher) and is revaluated monthly or ad hoc whenever the clearing fund required as a result of the daily stress tests

overpasses the one that is currently in place. In that case an extraordinary clearing fund update will be immediately triggered by OMIClear.

The daily results of the stress tests are monitored by the Chief Risk Officer (CRO) and reported to Board of Directors at least monthly or ad hoc when deemed necessary. These reviews help ensure that the calculated size of the Clearing Fund is appropriate to cover the risk of the exposures.

The stress scenarios rely on the most severe market conditions experienced in OMIClear's lifetime and also hypothetical scenarios which are extrapolated from a cautious analysis of historical data of price movements, volatility behaviour, market liquidity and price correlations.

OMIClear's rules, in particular Instruction B12/2014 (Default Waterfall) and Instruction B07/2014 (Clearing Fund), include detailed provisions regarding the list of financial resources to be used in case of default of a clearing member and respective priority, as well as the replenishment rules to restore the default waterfall, allowing OMIClear to continue to operate in a safe and sound manner.

To ensure sufficient financial safeguards coverage OMIClear is continuously performing tests to its risk model and always considering the behaviour of key risk variables like price and volatility movements, market liquidity behaviour, procyclicality, price correlations among products and positions concentration on both account and clearing member levels.

Regarding the reporting lines and respective frequency, the following applies:

- ⊕ Results on the daily stress tests and Clearing Fund, daily back tests and monthly sensitivity tests are analysed by OMIClear's CRO and reported to the Board of Directors on a monthly basis and to the Risk Committee on a quarterly basis;
- ⊕ Results concerning the quarterly sensitivity tests and reverse stress tests are analysed by OMIClear's CRO and reported to the Board of Directors and Risk Committee on a quarterly basis.

The Executive Board members, the Chief Risk Officer and the COO together with the Risk Committee are responsible to verify if there is a need to adapt or refine the margin model assumptions, to change the methodology underlying the initial margin or the clearing fund or to adjust the risk testing program, in order to make ensure that the CCP holds at all times a safe financial safeguards coverage.

A full validation of a CCP's risk-management model is performed at least annually or when there is a change in the risk model that deems to be significant under Article 49 of EMIR. OMIClear may also request an external independent opinion in case it is identified that there is a need to make material changes to its risk model.

The results of the validation are reported to the Risk Committee for its review and analysis and also presented to the Board of Directors.



## Key Consideration 6

*In conducting stress testing, a CCP should consider the effect of a wide range of relevant stress scenarios in terms of both defaulters' positions and possible price changes in liquidation periods. Scenarios should include relevant peak historic price volatilities, shifts in other market factors such as price determinants and yield curves, multiple defaults over various time horizons, simultaneous pressures in funding and asset markets, and a spectrum of forward-looking stress scenarios in a variety of extreme but plausible market conditions.*

As mentioned in the previous Key Considerations of this Principle several stress scenarios to estimate worst case losses, to size the Clearing Fund, to gauge largest aggregate credit exposures as well as OMIClear's liquidity needs under extreme but plausible market conditions (EbPMC). These EbPMC defined by OMIClear are compliant with EMIR regulation, taking in consideration:

- a) Exposure following the default of one or more clearing members, including the simultaneous failure of entities in the group of the defaulting clearing member;
- b) Unfavourable movements in the market prices of cleared products, taking into account:
  - i. A range of historical scenarios, including periods of extreme market movements observed during a reliable lookback period, that would have exposed the CCP to greatest financial risk;
  - ii. A range of potential future scenarios, founded on consistent assumptions regarding market volatility and price correlation across the cleared products, drawing on both quantitative and qualitative assessments of potential market conditions;
  - iii. The extent to which extreme price movements could occur in multiple identified markets simultaneously, recognizing that historical price correlations may breakdown in extreme but plausible market conditions.
- c) Reduced market liquidity for the cleared products.

EMIR regulation also requires CCPs to consider two other market conditions when determining their EbPMC scenarios: i) cross-border and cross-currency exposures and ii) declines in the liquidation value of collateral. The first is not considered by OMIClear since it is not subject to this type of exposures (all cleared products are under the euro framework and there is no exchange rate risk). Regarding the liquidation value of collateral, on one hand OMIClear already addresses the risk through the eligibility criteria of the collateral (only cash and government bonds), on the other hand the haircuts determined for the government bonds already comprised conservative yield variations and liquidation period.

Recognizing that the establishment of extreme but plausible market conditions (EbPMC) is an ongoing process, which must be continuously improved and refined, OMIClear addresses all the above-mentioned topics in its EbPMC framework, by establishing scenarios that are divided into hypothetical and historical. The discussions at regular meetings with the Risk Committee together with the results of the various tests carried out by OMIClear shall be the

basis for the continuous adaptation of these scenarios. In case the clearing services are to be extended to new instrument contracts (eg: other energy-based derivatives products) the scenarios shall be adapted to comprise the specific stressed events underlying these new products prior to being approved for clearing.

Regarding the hypothetical stress scenarios OMIClear is focused on capturing the main exposures of its members, including a bullish market, a bearish market and correlation breaks among products of different geographical locations. To determine the risk parameters underlying the hypothetical scenarios OMIClear uses the worst observed price and volatility variations based on the drawdowns recorded in a reliable lookback period, worst estimate of price variations for the future (worst observed plus an aggravation factor), a stressed liquidation period to offset positions (based on the assumption that the market will not be able to absorb the positions in default), a breach of price correlations among other metrics.

For the historical stress scenarios OMIClear analyze and identify the main sources of risk for the products cleared (energy derivatives contracts): price and volatility changes and correlation breaches. In this context, OMIClear selects historical events that presented either larger price/volatility shocks all in the same direction or larger price/volatility shocks where contracts move simultaneously in both directions (thus breaching historical correlation). This analysis is also performed taking into account a stressed liquidation period and a reliable lookback period.

Additionally, OMIClear conducts on a quarterly basis reverse stress testing on the overall size of the Clearing Fund, designed to identify conditions that may exceed OMIClear's financial resources. The reverse tests are based on a trial-and-error process, through which it simulates an aggravation of the parameters underlying the EbPMC. A quarterly report based on the reverse tests results are produced to be analysed by the CRO, the Board of Directors and the Risk Committee. Based on such results, OMIClear and the Risk Committee shall assess the adequacy of its current EbPMC framework and if other potential future events shall be considered. Such assessment shall also consider the impact on the liquidity needs generated and the available liquid resources.

## Key Consideration 7

*An FMI should establish explicit rules and procedures that address fully any credit losses it may face as a result of any individual or combined default among its participants with respect to any of their obligations to the FMI. These rules and procedures should address how potentially uncovered credit losses would be allocated, including the repayment of any funds an FMI may borrow from liquidity providers. These rules and procedures should also indicate the FMI's process to replenish any financial resources that the FMI may employ during a stress event, so that the FMI can continue to operate in a safe and sound manner.*

OMIClear has established explicit rules around the default of one or more Clearing Members. Most of them are laid down in its Rulebook and Instructions A09/2014 (Defaults), B18/2014 (Procedures in Case of Default) and B12/2014 (Default Waterfall). These rules consider legal and regulatory obligations and prudent risk management practices to preserve the solvency of the clearing structure.



The rules detail the circumstances and procedures underlying the use of a defaulted clearing member's collateral, the set of financial resources to cover the losses associated with the default, the priority used to realize each type of financial resource and the replenishment procedures and deadlines to restore OMIClear's default waterfall and to ensure that the CCP can continue operate in a safe and sound manner. This replenishment obligation includes the following:

- ⊕ When OMIClear's Skin in the Game (SIG) has been realized to manage a default event it must be replenished within 20 clearing days by the shareholders;
- ⊕ When clearing fund contributions (pre-funded) of non-defaulting clearing members have been exhausted (only after OMIClear's dedicated funds) it must be replenished within 2 clearing days, otherwise included as a debit amount in the daily financial settlement of the 2<sup>nd</sup> clearing day;
- ⊕ When OMIClear's Second Skin in the Game (SSIG) has been realized to manage a default event it must be replenished within 20 clearing days by the shareholders;
- ⊕ When OMIClear has to request for the "clearing fund additional responsibilities" of non-defaulting clearing members (not pre-funded) it shall be made within 2 clearing days, otherwise included as a debit amount in the daily financial settlement of the 2<sup>nd</sup> clearing day. Nonetheless, the replenishment of this component shall comply with some peculiarities including a period (30 clearing days) that is conceded to non-defaulting clearing members to decide and notify OMIClear the intention to cease their activity and leave the CCP.

To face any liquidity shortfall in the event of a clearing member's default, a custodian bank's default or if there is a temporary problem with the daily financial settlement at TARGET payment system that might delay payments between OMIClear and its clearing members it is worth mentioning that OMIClear maintains several credit facilities including an intraday credit line with the Portuguese Central Bank, several committed lines of credit with different commercial banks and, as a last resort mechanism, an arrangement with non-defaulting clearing members that allows OMIClear to postpone the payments to non-defaulting Clearing Members with credit balances during a specified period. This liquidity mechanisms waterfall circumvents any concentration risk.

According to its rules and default procedures plan, if OMIClear's default waterfall has been exhausted under a default event and there are still positions left to be closed out and uncovered losses a last resort mechanism that consists of a compulsory closing-out of positions ("partial tear-up") is also foreseen. This mechanism has been thoroughly discussed and approved by all the clearing members and by the Risk Committee and is part of the rules (Instruction B18/2014 - Procedures in Case of Default).

### Assessment of principle:

Observed
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### 3.5 Principle 5: Collateral

***An FMI that requires collateral to manage its or its participants' credit exposure should accept collateral with low credit, liquidity, and market risks. An FMI should also set and enforce appropriately conservative haircuts and concentration limits.***

#### Key Consideration 1

*An FMI should generally limit the assets it (routinely) accepts as collateral to those with low credit, liquidity, and market risks.*

OMIClear only accepts highly liquid collateral, denominated in Euro, with readily available market prices and with low market and credit risk, namely cash and sovereign debt from Portugal (securities that meet the Eurosystem eligibility criteria, under ECAF - *Eurosystem Credit Assessment Framework*).

Regarding commercial bank guarantees, OMIClear only accepts bank guarantees as long as they are considered eligible collateral by EMIR regulation.

Risks associated with the collateral deposited in OMIClear are mitigated through an ongoing review of the eligible financial instruments, a daily valuation of the collateral deposited, prudent haircuts, several concentration limits and a conservative investment policy. Wrong-way risk is limited since OMIClear does not accept equities as collateral (hence there is no risk of a participant in posting own shares or shares of its company group or shares of companies belonging to same economic sector). All these topics are thoroughly analysed and monitored by the risk department which regularly informs the Board of Directors and the Risk Committee. The haircuts methodology is also subject to an independent validation carried out on a yearly basis.

OMIClear's, principles, rules and procedures regarding the collateral are laid down in:

- ➡ A published rule: Instruction A06/2014 (*Management and Evaluation of Guarantees*) – including the list of accepted collateral, type of haircuts applied, collateral valuation principles, pledge criteria (“fiduciary transfer” for cash collateral and “financial pledge” for financial instruments), allocation rules, which responsibilities the collateral must cover and segregation rules. The applicable haircuts values are disclosed in a specific file made available at least on a monthly basis (or ad hoc when an extraordinary revision is deemed necessary) in OMIClear's website;
- ➡ An Investment Policy - including detailed information on the possible investment operations over the participants' collateral, the custodian entities (only qualified credit institutions with a low credit risk are accepted) and applicable concentration limits.

More detailed information on the collateral principles employed by OMIClear is provided in the following Key Considerations of this Principle.

## Key Consideration 2

An FMI should establish prudent valuation practices and develop haircuts that are regularly tested and take into account stressed market conditions.

According to its Instruction A06/2014, OMIClear values the collateral posted on a daily basis. Participants are also provided with the updated value of their collateral through the clearing platform. Regarding the updated value of the accepted financial instruments, as referred in such Instruction, OMIClear considers the updated market value of each security issue (since OMIClear has access to Bloomberg information), prudent haircuts as explained below and the accrued interest.

The haircuts employed by OMIClear are revised at least monthly, or more frequently as market conditions warrant. The haircut value for each securities class results from the combination of two factors: i) the volatility of the respective yield price (H1 parameter); and ii) the historical liquidity of the financial instruments concerned (H2 parameter), to minimize market risk and liquidity risk. Similarly to the principles used for the calculation of the risk parameters underlying the initial margin, in its haircuts methodology OMIClear has a prudent approach by:

- a) Considering a relevant historical period (worst percentile between 1 year and 14 years) to ensure that periods of stress are included in the data sample and also minimizing procyclicality effects,
- b) Using a high confidence level (99,9%), also to cover stress market variations (higher than the one used for determining the initial margin risk parameters)
- c) Adopting a liquidation period of 5 days, which according to OMIClear's analysis, already consists of a stressed close out period under extreme market conditions.

OMIClear monitors on an ongoing basis the economic events that might affect the prices of the Portuguese sovereign debt. Although its haircuts methodology already takes into account stressed market conditions and avoids procyclicality effects, according to its rules, OMIClear is able to trigger an extraordinary update of the haircut values in cases of instability or abrupt changes in the relevant market of the financial instruments accepted as collateral.

## Key Consideration 3

In order to reduce the need for procyclical adjustments, an FMI should establish stable and conservative haircuts that are calibrated to include periods of stressed market conditions, to the extent practicable and prudent.

The haircuts applied by OMIClear recognise the fact that collateral may need to be liquidated in stressed market conditions. As already mentioned in Key Consideration 2, the haircut parameter applied to a given security class results from the combination of two factors: i) the volatility of the respective yield price (H1 parameter); and ii) the historical liquidity of the financial instruments concerned (H2 parameter, which is a multiplier of H1 and therefore if higher than 1 it means that the H1 parameter will be aggravated in order to cover the liquidity risk based on the historical traded volume of the respective assets). The final haircut parameter

results from the multiplication of H1 x H2. The methodology underlying the H1 (regarding the asset volatility) and H2 (regarding the asset liquidity) rely on prudent and conservative principles:

- ☞ For H1 (related to asset volatility):
  - a) The use of a high confidence level (99,9%) to cover extreme market conditions;
  - b) The selection of the worst percentile of yield price variations between last year and the last 14 years (since 2010);
  - c) The adoption of a conservative liquidation period of 5 days;
- ☞ For H2 (related to asset volatility):
  - a) The reference volume amounts used to determine the multiplier factor of H1 are the worst volumes between the last 6 months average and last month.

The combination of the above-mentioned principles allows OMIClear to reduce the need for procyclical revisions.

The configurable parameters of the collateral haircut determination formulas are to be validated regularly and adjusted, if necessary.

#### **Key Consideration 4**

An FMI should avoid concentrated holdings of certain assets where this would significantly impair the ability to liquidate such assets quickly without significant adverse price effects.

The collateral deposited by a counterparty is aggregated in a so-called collateral pool, which contains all instruments in order to fulfil the counterparty's margin requirement and clearing fund contribution.

If a counterparty has defaulted, OMIClear guarantees a safe and smooth winding down of such counterparty's portfolio - with the lowest possible market impact.

If, as a consequence of a counterparty's default, OMIClear has to liquidate large positions of collateral, such liquidation may cause losses due to a lack in liquidity. Similar losses can arise if the portfolio of the defaulted counterparty is concentrated in certain instruments, and OMIClear is confronted with a lack in liquidity when winding down the respective portfolio. To avoid such losses, OMIClear defined dedicated concentration risk thresholds which are applicable to all counterparties. The concentration risk thresholds are available in Instruction A06/2014 - Management and Evaluation of Guarantees.

In order to avoid wrong-way risk OMIClear does not allow counterparties to deposit own issues (or issues of closely linked entities) as collateral. Moreover, counterparties are not entitled to use such instruments as collateral for repo transaction.

In this context, OMIClear sets thresholds that consider the share of each issue and the share of guarantees issued by a single issuer.

## Key Consideration 5

An FMI that accepts cross-border collateral should mitigate the risks associated with its use and ensure that the collateral can be used in a timely manner.

OMIClear accepts securities posted in Interbolsa as collateral. OMIClear mitigates the risks associated with the use of cross-border collateral by using a standard financial pledge contract.

As for enforcing the collateral posted in OMIClear's accounts in these depositories, OMIClear has legal opinions supporting its right to use the collateral in a timely manner in the event of default by the member that posted the collateral.

Cash collateral (euro) is deposited at the respective cash collateral location as announced by OMIClear to the participant: at the central bank in TARGET.

Collateral processing takes place in a straightforward manner via standardised interfaces, which mitigates operational and market risks.

## Key Consideration 6

An FMI should use a collateral management system that is well-designed and operationally flexible.

The scope of OMIClear collateral management comprises the connection of designated collateral locations (CSDs or custodian banks), the acceptance of a small range of eligible collateral, timely validation of margin requirements, collateral valuation, transparency through intraday reports and monitoring functionalities, as well as highest protection through asset segregation and portability in line with regulatory requirements. These services are provided by the collateral management system infrastructure of OMIClear (MiClear) and by the respective collateral locations' systems.

OMIClear aims to provide a collateral management service that simultaneously ensure the integrity of the clearing house. For that matter OMIClear regularly adjusts its collateral management practices and procedures including the services developed by and requested from the CMS service provider (e.g. Interbolsa).

Moreover, the collateral management system shows collateral posted, collateral required and excess of collateral in real time.

Collateral management tasks are integrated in the business-as-usual activities performed by the Clearing team, which is well-designed and balanced. The whole team is trained to perform collateral management activities and controls.

## Assessment of principle:

Observed

### 3.6 Principle 6: Margin

***A CCP should cover its credit exposures to its participants for all products through an effective margin system that is risk-based and regularly reviewed.***

#### Key Consideration 1

A CCP should have a margin system that establishes margin levels commensurate with the risks and particular attributes of each product, portfolio, and market it serves.

OMIClear has a margin system (MiClear) that automatically calculates margins designed to limit CCP's credit exposure from its Clearing Members and based on a methodology that is fully documented in OMIClear's Instruction B10/2014 (Calculation of Margins and Settlement Values) disclosed in its website:

- ⊕ **Initial Margin (IM)** – covers the risk of having to face the estimated worst price development for closing out, in a short time period, all positions of a member in default; IM calls are covered through collateral;
- ⊕ **Variation Margin (VM)** – similar to the mark-to-market (that applies to the futures contracts during its trading period) but instead of being daily cash settled, negative VM amounts are covered through member's collateral. It covers the market risk related to gains and losses on open positions resulting from variations of the Settlement Prices during delivery period (in case of Futures contracts) or during trading and delivery periods (in case of Swaps and Forwards contracts). VM calls (negative VM values) are fulfilled with collateral;
- ⊕ **Non-realized Profit and Loss Margin** – covers the intraday gains and losses in tradable contracts (an intraday mark-to-market concept which must be fulfilled with collateral). At the end of the day this margin no longer applies since it becomes replaced by the effective mark-to-market amount to be cash settlement at TARGET payment system;
- ⊕ **Settlement Margin (SM) and Billing Margin (BM)** – both margins cover credit risk regarding amounts (delivery settlement value, mark-to-market, option premium) already due by the Clearing Member but not cash settled yet at TARGET payment system;
- ⊕ **Physical Delivery Margin** - covers a specific risk related to the default on positions under delivery on gas derivatives contracts with physical delivery at the Spanish hubs (PVB or TVB). In particular, it covers the risk of OMIClear having to replace a defaulting physical delivery agent (within the scope of the daily the notification process to Enagás GTS) and having to face an economic penalty ('*Tarifa de Desbalance*') that is established by the Spanish rules regarding gas network users presenting imbalances at a given hub;
- ⊕ **Extraordinary Margin** – to protect market security, OMIClear may require an Extraordinary Margin taking into consideration, in particular, the market circumstances



regarding price volatility, the sudden increase in a clearing member's exposure. In addition, OMIClear also applies an **Extraordinary Margin for Concentration Risk**, which is applied when the aggregated positions on clearing member level surpass the concentration limits established by OMIClear;

- ➡ **Premium Margin** – covers the risk of the member's gains and losses regarding positions in option contracts.

The resources coming from margin calls make part of the waterfall mechanism in place in OMIClear, consisting of the first tier to be activated in case of default (before using OMIClear's own funds to solve the default event) as referred in Key Consideration 4 of Principle 3 (Framework for the comprehensive management of risks).

OMIClear's margining comprises the entire process of measuring and calculating a Clearing Member's risk exposure. The provision of collateral by the Clearing Members to fulfil OMIClear's margin calls has the purpose of ensuring that all financial commitments arising from the open positions of a Clearing Member can be offset within a very short period of time.

In order to prevent Clearing Members from posing too much risk relative to the collateral provided to the CCP, besides having the authority and operational capacity to call intraday margin (please refer to the above mention Extraordinary Margin definition), OMIClear also imposes limits for the Daily Operational Limit, in particular the balance between the collateral deposited and the responsibilities (margins and clearing fund) cannot exceed 10% of the such collateral (as referred in its Instruction B09/2014 - Operational Limits). If the 10% ratio is reached, then OMIClear contacts the participant requesting a collateral reinforcement so that the limit can be fulfilled. Any collateral deficit that may occur throughout the clearing session must be covered until 18h00 CET. Otherwise OMIClear has powers to include the deficit amount in the daily financial settlement of that session, i.e., there will be a compulsory cash collateral provision through an automatic debit of the relevant settlement bank's account at TARGET payment system on the value date of the following session.

A Clearing Member's total margin requirement is the amount that is equivalent to such member's risk exposure before OMIClear. Since members must provide collateral for their margin requirements, the counterparty risk exposure decreases by the value of the collateral provided to the CCP. Consequently, OMIClear is not exposed to any credit risk as long as all Clearing Members meet their margin requirement in time.

The level of margins and daily operational limits (collateral deposited versus the sum of margins and other member's responsibilities) presented by each Clearing Member are recalculated automatically by the clearing system intraday (on a close to real time basis) and end-of-day. This information is continuously monitored by the clearing staff, which will trigger the adequate measures (in close interaction with the risk department) whenever those levels are breached or become close to the established limits.



## Key Consideration 2

A CCP should have a reliable source of timely price data for its margin system. A CCP should also have procedures and sound valuation models for addressing circumstances in which pricing data are not readily available or reliable.

OMIClear calculates and discloses on a daily basis Settlement Reference Prices for each cleared contract. The price data source is defined in the rules laid down in its Instruction B11/2014\_Reference Prices available on its website.

OMIClear's clearing system (MiClear) is connected to the trading systems managed by each connected market (OMIP, MIBGAS and MIBGAS Derivatives) through API or web services. This integration between CCP's system and exchanges' systems allows the former to perform intraday margin calculations based on the last prices of the trades made through screen trading, auctions or OTC trades at each connected exchange. In case there are no trades and, therefore, no updates on the intraday prices and consequently, on the intraday margin amounts at the MiClear system, the clearing staff has the operational capacity to insert intraday prices into that system based on exchange price information (which can be obtained through other market information such as the mid-price resulting from the bid/ask orders placed in the market, via price consultations to market trading members, OTC prices disclosed on Bloomberg or other reliable price information) in order to trigger the recalculation of the intraday margins.

In case, under exceptional circumstances, OMIClear considers that the Settlement Reference Prices defined by the market are not sufficiently representative of the market situation to compute the end-of-day margins, according to its Instruction B11/2014 - Reference Prices, OMIClear has powers and flexibility to define distinct prices, namely by considering other relevant information such as: i) prices of other (not-connected) markets; ii) quotations from members of connected markets; iii) quotations from the OTC trades; iv) prices from previous sessions.

## Key Consideration 3

A CCP should adopt initial margin models and parameters that are risk-based and generate margin requirements sufficient to cover its potential future exposure to participants in the interval between the last margin collection and the close out of positions following a participant default. Initial margin should meet an established single-tailed confidence level of at least 99 percent with respect to the estimated distribution of future exposure. For a CCP that calculates margin at the portfolio level, this requirement applies to each portfolio's distribution of future exposure. For a CCP that calculates margin at more-granular levels, such as at the sub portfolio level or by product, the requirement must be met for the corresponding distributions of future exposure. The model should (a) use a conservative estimate of the time horizons for the effective hedging or close out of the particular types of products cleared by the CCP (including in stressed market conditions), (b) have an appropriate method for measuring credit exposure that accounts for relevant product risk factors and portfolio effects across products, and (c) to the extent practicable and prudent, limit the need for destabilising, procyclical changes.

Regarding the **Initial Margin**, which purpose is to cover a **member's potential exposure**, OMIClear's methodology is **based on a portfolio margin approach**, integrating futures, forwards, swaps and options on futures contracts into the same system to assess a portfolio's risk. Positions are examined over a range of price and volatility changes to determine potential gains and losses. Several risk parameters are used in the calculation of the Initial Margin which fulfills the requisites established by EMIR and its RTS, in particular:

- a) **Estimated price variation (range)** - The range is set to capture the possible change in the underlying prices of the derivatives contracts cleared by OMIClear over a liquidation period, which depends on the contract type:

Contracts classified as 'Exchange Traded Derivatives (ETD)' according to MIFID:

- i. Liquidation period (non-large positions): 2 days
- ii. Confidence Interval: 99%

Contracts classified as 'OTC Derivatives according to MIFID:

- i. Liquidation period (non-large positions): 5 days
- ii. Confidence Interval: 99,5%

The values are calculated using two samples:

- i. The complete relevant historical price data;
- ii. The price data of the previous twelve months.

The liquidation period (for non-large positions) has been decided by OMIClear based on 3 important assumptions:

- i. The time elapsing between the last collection of margins and the moment in which the default is detected;
- ii. The expected time consumed with the operational procedures once the default is detected;
- iii. The dimension and concentration of the positions to close out.

Regarding options on future contracts, OMIClear computes the implied volatility variation based on the same methodology as the one to compute the price range.

- b) **A 25% weight is assigned to the average of the stressed observations** calculated with the complete relevant historical price data and **a 75% weight is assigned to the higher of the 1<sup>st</sup> or 99<sup>th</sup> percentile** drawdown of the last 12 months for ETD Derivatives and to the higher of the 0,5<sup>th</sup> or 99,5<sup>th</sup> percentile for OTC Derivatives. The inclusion of stressed observations in the range computation aims at minimizing the procyclicality effects;

- c) **Large Positions Aggravation Factor** – OMIClear charges an extra margin for concentrated positions or positions in contracts with reduced liquidity. The liquidation period for large positions is set as follows:

- i. ETD Contracts: 3 days;
- ii. OTC Contracts: 5 days;

The aggravation factor applied to large positions consists of:

- i. ETD Contracts: the percentage variation between the range parameter calculated for 3-day period and the one calculated for 2-day period;
- i. OTC Contracts: not applicable as the liquidation period for large positions and non-large positions coincide (5 days);
- d) **Credits between different products** – OMIClear assigns a margin credit for offsetting positions between correlated contracts. At least 250 observations must exist in order to compute a correlation. Only pairs of products presenting statistically significant correlations are eligible for margin credits.

The above-mentioned risk parameters are updated monthly or ad hoc when the market conditions warrant.

A complete description of the methodology is included in OMIClear's internal document "Calculation of Margin Parameters" which has obtained a positive validation from an external independent entity and a positive opinion by the Risk Committee.

OMIClear also considers the risk arising from concentrated positions on both a clearing account level (which is covered through the above mentioned "large positions aggravation factor") and a clearing member level (extra margin for clearing members with concentration risk referred to in Key Consideration 1).

The risk department conducts a monthly and quarterly analysis on the margin and risk model validation (backtesting, stress testing, reverse stress testing and sensitivity testing) to monitor the CCP's ongoing capacity to commensurate with the risks and particular attributes of the cleared derivatives contracts. The results of such analysis are reported to the Board of Directors on a monthly basis, to the Risk Committee on a quarterly basis. Additionally, an annual revision is conducted over the global risk management framework in order to validate the adequacy of the implemented risk model and perform adjustments when deemed appropriate.

#### Key Consideration 4

A CCP should mark participant positions to market and collect variation margin at least daily to limit the build-up of current exposures. A CCP should have the authority and operational capacity to make intraday margin calls and payments, both scheduled and unscheduled, to participants.

Regarding the **Variation Margin**, which purpose is to cover a **member's current exposure**, OMIClear performs the mark-to-market process for positions on derivatives contracts meaning that the profits and losses on open positions arising from settlement prices fluctuations are recalculated throughout the session and at the end of the day and offset daily. Depending if such mark to market process is performed on Futures Contracts, on Options on Futures contracts, or on Forwards/Swap contracts the terminology used by OMIClear may slightly differ

and the daily offset can be fulfilled either through guarantees or cash settled at the TARGET payment system. The following applies:

a) For positions on **Futures** contracts:

- i. In trading period – OMIClear calculates **Mark-to-Market** (MtM) on session D to be cash settled on D+1 at TARGET system. While it is not settled (between the end of the session of D and the beginning of session D+1) negative MtM amounts are collateralized through “Billing Margin”. On D+1, after MtM payments (together with other cash settlement such as the delivery settlement values and fees of the previous session) such Billing Margin of D becomes nil;
- ii. In delivery period - OMIClear calculates **Variation Margin** for the remaining position that is fulfilling delivery and is still subject to profits and losses due to price fluctuations. Like any other margin, losses are to be fulfilled with guarantees (collateralized). Any collateral deficit on session D must be covered until the end of the closing time of the TARGET payment system (18h00 CET). Otherwise, OMIClear has powers to perform a compulsory cash settlement at this payment system by the deficit amount i.e. the required collateral is provided through automatic debit of the respective settlement bank account in the following settlement cycle (9h00 CET of D+1).

b) For positions on **Forwards or Swap** contracts:

- i. In both trading period and delivery periods – OMIClear calculates **Variation Margin**, i.e. during the trading period no cash settlement of profits and losses (MtM) applies but instead a margin calculation to be covered with guarantees (collateralized for losses). Any collateral deficit on session D must be covered until the end of the closing time of the TARGET payment system (18h00 CET). . Otherwise, OMIClear has powers to perform a compulsory cash settlement at this payment system by the deficit amount i.e. the required collateral is provided through automatic debit of the respective settlement bank account in the following settlement cycle (9h00 CET of D+1).

c) For positions on **Options on Futures** contracts:

- i. In trading period – OMIClear calculates Premium Margin since these positions are subject to profits and losses due to options price (premium) fluctuations. Like any other margin, losses are to be fulfilled with guarantees (collateralized). Otherwise, OMIClear has powers to perform a compulsory cash settlement at TARGET on D+1 by the deficit amount (i.e. the required collateral is provided through automatic debit of the respective settlement bank account).
- ii. In delivery period – Only if options are exercised positions will be converted into position in futures contracts. Please refer to paragraph a) ii).

The following tables provide a relevant overview of the two main risk types: regarding members’ potential exposures (covered through initial margin) and regarding members’ current

exposures (which is covered through the mark to the market process explained in this Key Consideration). These computations are performed by the clearing system and disclosed in intraday and end-of-day reports like follows:

a) **Futures contracts:**

Risk Type	Intraday Information (reports updated on a close to real time-basis)	End-of-Day (EoD) Information (EoD reports available until 20h30 CET)
<b>Potential Exposures</b> (future market risk in case of member's default)	<b>Intraday Initial Margin</b> recalculated with incoming trades. Always collateralized.	<b>EoD Initial Margin</b> recalculated with final positions at the end of the session. Always collateralized.
<b>Current Exposures</b> (current market risk)	<ul style="list-style-type: none"> <li>Positions on Futures <u>in trading</u>: <b>intraday Non-realized Profit and Loss Margin</b> (provisional MtM) recalculated with incoming trades and market prices. Losses are <b>collateralized</b>.</li> <li>Positions on Futures <u>in delivery</u>: <b>intraday Variation Margin</b> recalculated with updated market prices. Losses are <b>collateralized</b>.</li> </ul>	<ul style="list-style-type: none"> <li>Positions on Futures <u>in trading</u>: <b>final Mark-to-Market</b> (based on OMIP settlement prices and final positions). Included in Billing Margin (collateralized) of that session (D) until its <b>cash settlement at Target (D+1)</b></li> <li>Positions on Futures <u>in delivery</u>: <b>EoD Variation Margin</b> recalculated with <b>OMIP settlement prices</b>. Losses are collateralized.</li> </ul>

b) **Forwards or Swap contracts:**

Risk Type	Intraday Information (reports updated on a close to real time-basis)	End-of-Day (EoD) Information (EoD reports available until 20h30 CET)
<b>Potential Exposures</b> (future market risk in case of member's default)	<b>Intraday Initial Margin</b> recalculated with incoming trades. Always collateralized.	<b>EoD Initial Margin</b> recalculated with final positions at the end of the session. Always collateralized.
<b>Current Exposures</b> (current market risk)	<ul style="list-style-type: none"> <li>Positions on Forwards/Swaps <u>both in trading and in delivery</u>: <b>intraday Variation Margin</b> recalculated with incoming trades and updated market prices. Losses are <b>collateralized</b>.</li> </ul>	<ul style="list-style-type: none"> <li>Positions on Forwards/Swaps <u>both in trading and in delivery</u>: <b>EoD Variation Margin</b> recalculated with final positions and OMIP settlement prices. Losses are <b>collateralized</b>.</li> </ul>

c) **Options on Futures** contracts:

Risk Type	Intraday Information (reports updated on a close to real time-basis)	End-of-Day (EoD) Information (EoD reports available until 20h30 CET)
<b>Potential Exposures</b> (future market risk in case of member's default)	<b>Intraday Initial Margin</b> recalculated with incoming trades. Always collateralized.	<b>EoD Initial Margin</b> recalculated with final positions at the end of the session. Always collateralized.
<b>Current Exposures</b> (current market risk)	<ul style="list-style-type: none"> <li>Positions on Options <u>in trading</u>: <b>intraday Premium Margin</b> recalculated with incoming trades and market prices. Losses are <b>collateralized</b>.</li> <li>Positions on Options <u>in delivery</u>: <b>n/a</b> (if options are exercised they will convert into positions on Futures contracts (subject to intraday Variation Margin).</li> </ul>	<ul style="list-style-type: none"> <li>Positions on Options <u>in trading</u>: <b>EoD Premium Margin</b> recalculated with final positions and OMIP settlement prices. Losses are <b>collateralized</b>.</li> <li>Positions on Options <u>in delivery</u>: <b>n/a</b> (if options are exercised they will convert into positions on Futures contracts (subject to EoD Variation Margin).</li> </ul>

According to the rules in place, OMIClear has full authority and operational capacity to perform intraday margin calls and payments, both scheduled and unscheduled, to participants, by implementing the following:

- Requiring Clearing Members to have, at all times, guarantees set up with the CCP to cover its exposures (including the margins already referred to above, extraordinary margin, clearing fund, additional guarantee related to member admission requisites etc.) – please refer to Instruction B06/2014 - *Responsibilities of Clearing Members and Allocation of Guarantees*;
- Having the powers to call for extraordinary margin to cope with: i) extreme market volatility throughout a clearing session, in particular to cover expectable losses of a Clearing Member, namely when during the clearing session there is a price variation that suggests that effect on the positions portfolio cleared by that member; ii) concentration risk at the member level - please refer to Instruction B10/2014 - *Calculation of Margins and Settlement Values*;
- Applying a 'mandatory constitution of guarantees', i.e. where there is a responsibility of a clearing member or clearing member's client with segregation regime not covered by collateral until 18h00 CET, cash collateral will mandatorily be set up, and the total amount not covered by guarantees will be included in the amount to be settled by such participant, under the daily financial settlement of that session – please refer to Instruction B06/2014 - *Responsibilities of Clearing Members and Allocation of Guarantees*;
- Establishing two different types of financial settlement at TARGET payment system for the cleared positions: a "daily financial settlement", which occurs at 9h00 CET of each clearing day, and an "extraordinary financial settlement", which gives OMIClear the powers and flexibility to ensure a proper risk management under exceptional situations including a high volatility of market prices. In this context OMIClear may anticipate the



settlement of mark-to-market losses (due to adverse price fluctuations) and/or delivery settlement value losses (due to adverse spot prices fluctuations) for a time different than the one used under normal conditions - please refer to Instruction B08/2014 – *Financial Settlement*;

- e) Stating in its rules that, even requiring clearing members to have the responsibility of controlling on an ongoing basis their positions and guarantees with OMIClear, the CCP may require a participant to reinforce or reallocate its guarantees whenever its Daily Operational Limit (expressed as a percentage of the respective guarantees), reaches less than 10%, and, in addition, an absolute minimum value may be defined - please refer to Instruction B09/2014 - *Operational Limits*;
- f) By providing at all times in its clearing system, on a clearing account level, the set of rights and duties of the Clearing Member as regards its open positions with the CCP, including settlement amounts (mark-to-market, delivery settlement value, option premium and fees), total net amount to be cash settled on the following day at TARGET payment system; fees and margins (permanently recalculated on an intraday basis and at the end-of-day) - please refer to A05/2014 – *Accounts*.

## Key Consideration 5

In calculating margin requirements, a CCP may allow offsets or reductions in required margin across products that it clears or between products that it and another CCP clear, if the risk of one product is significantly and reliably correlated with the risk of the other product. Where two or more CCPs are authorised to offer cross-margining, they must have appropriate safeguards and harmonised overall risk-management systems.

OMIClear allows offsetting and reductions between different financial instruments that are sufficiently correlated. Correlation is computed for pair of products with different underlying (Spain, Portugal, France, Germany, peakload, baseload, solar, power versus gas etc.). Like already mentioned in Key Consideration 3, at least 1 year of observations must exist in order to compute a correlation and only pairs of products presenting statistically significant correlations are eligible for margin credits. When calculating the correlations OMIClear takes into consideration important factors like: the recent historical correlation (last year); the whole historical period correlation and the correlation in both calm and stressed periods.

The margin credits are computed based on the series of drawdowns for spread portfolios. OMIClear computes the margin required to close out the spread portfolio based on the same principles applies to the price and implied volatility range calculation. In particular, by determining the weighted average between the 99<sup>th</sup> percentile (75%) and the average of the 1% extreme observations (25%). It is worth highlighting the conservative approach OMIClear takes towards the assignment of credits: not only the worst extreme observations are given a weight of 25% in the credit but an additional 20% discount is applied to obtain the final credit for pairs of contracts that are not considered as the same product (in compliance with EMIR requirements). OMIClear believes that these two factors combined together account for



possible model errors. This conviction is founded in the out-of-sample tests performed on simple portfolios and also in OMIClear's daily backtest results.

As also mentioned in Key Consideration 3, a complete description of the initial margin model is available in OMIClear's internal document "Calculation of Margin Parameters" which has obtained a positive validation from an external independent entity and a positive opinion by the Risk Committee. Furthermore, the margin model, and generally the risk framework in place in OMIClear is subject to an annual internal revision by its risk department and disclosed to its Risk Committee (or ad hoc when significant changes on the margin model are intended to be implemented, such as the introduction of a new product with different risk features).

OMIClear does not have any cross-margining arrangements with other CCPs at present.

### Key Consideration 6

*A CCP should analyse and monitor its model performance and overall margin coverage by conducting rigorous daily backtesting and at least monthly, and more frequent where appropriate, sensitivity analysis. A CCP should regularly conduct an assessment of the theoretical and empirical properties of its margin model for all products it clears. In conducting sensitivity analysis of the model's coverage, a CCP should take into account a wide range of parameters and assumptions that reflect possible market conditions, including the most-volatile periods that have been experienced by the markets it serves and extreme changes in the correlations between prices.*

As already mentioned, the Initial margin must be sufficient to cover 99% (99,5% for OTC Derivatives) of observed price movements within the assumed liquidation period (2, 3 or 5-day period). This coverage is **back tested** on a daily basis by OMIClear, by checking the impacts of real price behaviours on Clearing Members' positions portfolio and validating if the initial margin required on the tested date would have been sufficient to cover the losses arising from the effective adverse price variations. Back testing is seeking to verify the reliability and practicability of the model and to identify if the model systematically understates or overstates risk.

On the back testing analysis OMIClear computes for each clearing account the number of times (in absolute terms and in %) that the results of the back tests have been negative in a lookback period of 1 year (i.e. the number of cases where the Initial Margin required did not cover the estimated losses) and, in case such statistic is higher than the established threshold, OMIClear shall trigger a revision of its Initial Margin parameters.

Additionally, OMIClear conducts **sensitivity tests** in order to keep track of the resilience and robustness of the results produced by its margin model. Its clearing system includes a simulation tool that enables the risk department to perform "what-if" tests with total flexibility regarding market conditions. This means that OMIClear has in place all operational conditions to carry out all sorts of sensitivity tests which can immediately reflect their impact on all members. This is achieved by being able to introduce in such simulation tool different values for the whole set of parameters and easily checking the impact of such values on members'

margin requirements and on the clearing fund. Two types of sensitive testing are carried out on an independently way:

- a) Parameter sensitivity testing - considering the set of parameters used to calculate the initial margin on a given month M under analysis (such as price range, volatility range, correlations underlying the margin credits, large positions thresholds and large positions aggravation factor) the risk department compares how these would change to hypothetical adjustments in the confidence interval, relevant samples and liquidation period. This test is performed on a monthly basis.
- b) Portfolio Scenarios testing - based on the members' real portfolios on several selected past dates, the risk department computes the margins and clearing fund which would be required with the parameters in place on month M. In a next step, a simulation of the net losses that would occur considering changes to the underlying assumptions (with respect to correlations, liquidation period, market liquidity and variation in volatility) is performed. This test is performed on a quarterly basis.

As established in its internal policy "Market Risk Testing Methodologies", the results of the above mentioned back tests and sensitivity tests are regularly reviewed by the Chief Risk Officer (CRO) who quarterly reports the main results and conclusions to the Risk Committee (not breaching confidentiality).

- ➡ If back testing suggests the margin coverage target cannot be met, OMIClear will conduct further investigation into the performance of the margin model. Additional analysis is performed on a monthly basis to investigate underlying causes of margin coverage breaches and identify any model weaknesses with respect to specific products, risk factors and market conditions;
- ➡ Likewise, if the results of the sensitivity tests reveal that a small change in a margin parameter produces a significant impact on the margin requirements, OMIClear shall trigger an extraordinary revision of its margin parameters.

Back testing results are daily disclosed through end-of-day data files to each Clearing Member of the CCP, with the information broken down by account holder. The global percentage of ratio coverage is also disclosed to the Board of Directors on a monthly basis.

### Key Consideration 7

A CCP should regularly review and validate its margin system.

OMIClear regularly reviews and validates its risk models. In its internal policy "Market Risk Testing Methodologies" a thorough description of the testing programs, processes and reporting lines is provided. OMIClear commits itself to the validation by an independent party prior to the implementation of significant changes into its risk model. Such internal policy also includes guidelines regarding the responsibilities of the different departments or bodies involved in the validation processes, detailed procedures and frequency of each validation test,

underlying metrics and actions to be taken when the established thresholds are breached and disclosure policy to the different stakeholders.

Besides the back testing and sensitivity testing (already described in the previous Key Consideration), for a comprehensive assessment of its risk model OMIClear validation program also includes:

- ⊕ Daily stress tests – as already described in Principle 4 (Credit Risk) the main purpose is to determine the adequate size of its Clearing Fund, providing information on risk exposure under extreme but plausible market conditions;
- ⊕ Reverse Stress tests – usually performed on a quarterly basis, these tests aim to check in which conditions OMIClear would no longer have the sufficient resources to withstand a certain default scenario. Since the Clearing Fund value is established based on the above-mentioned daily stress test results (which define the potential costs that OMIClear would incur in case of default of the most exposed members in extreme but plausible market conditions), any aggravation of the extreme but plausible market conditions framework would leave the CCP, by definition, with insufficient funds to withstand the default of such members. Therefore, OMIClear's main purpose in conducting this analysis is to clearly identify the market conditions (beyond the extreme but plausible scenarios) to which the CCP is more vulnerable.

For the ongoing revision and improvement of the model OMIClear regularly seeks the advice of the Risk Committee. Any significant changes or adjustments to the risk model will be exhaustively justified to the Risk Committee, subject to the Board of Directors before reporting the changes to the National Competent Authority (CMVM).

### Assessment of principle:

Observed
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## 3.7 Principle 7: Liquidity risk

***An FMI should effectively measure, monitor, and manage its liquidity risk. An FMI should maintain sufficient liquid resources in all relevant currencies to effect same day and, where appropriate, intraday and multiday settlement of payment obligations with a high degree of confidence under a wide range of potential stress scenarios that should include, but not be limited to, the default of the participant and its affiliates that would generate the largest aggregate liquidity obligation for the FMI in extreme but plausible market conditions.***

### Key Consideration 1

An FMI should have a robust framework to manage its liquidity risks from its participants, settlement banks, nostro agents, custodian banks, liquidity providers, and other entities.
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OMIClear has in place a robust liquidity risk management framework that establishes the fundamentals of this CCP to cope with this type of risk. In its Liquidity Plan OMIClear identifies the sources of the liquidity risk, defines the methodology to quantify its liquidity needs for both intraday and overnight scenarios, implements measures to cover these needs (liquidity mechanisms) and set up accounting and monitoring tools to manage this risk in the most accurate and prudent manner. This plan is set up in accordance with Articles 44 of EMIR and Articles 32 – 34 of RTS 153/2013 and it has been approved by the Board. As this relates to a core source of risk for the CCP it has been subject to the opinion of OMIClear's Risk Committee and is updated on a regular basis by the risk department and presented to both Risk Committee and the Board.

The liquidity risk basically concerns the CCP's ability of accessing cash in a timely manner since:

- ➡ Clearing Members may deposit non-cash collateral (in case of OMIClear securities, in particular, sovereign debt). If a liquidity shortfall is caused by a member who has securities as collateral it may take longer to convert those into cash comparing to a member with cash collateral, which can be immediately accessed.
- ➡ Even cash collateral may not always be immediately upon OMIClear's request, namely because it might be deposited in a custodian bank by means of repo operations and it might take some time to conclude the reverse operation to realise again the cash.

To better understand OMIClear's assumptions and liquidity tools laid down in its liquidity plan, an overview on the internal policies, rules and procedures in place are provided below as they all contribute for a high level of confidence in OMIClear's ability to reduce the sources of liquidity risk:

- a) First, OMIClear has in place a **Credit Risk Policy** (CRP) that comprises all counterparty relationships: clearing members, custodian banks and liquidity providers. To be an "eligible counterparty" of OMIClear, a robust risk assessment is performed by the risk department, as referred in Principle 4 (Credit Risk). A counterparty's exposure before OMIClear is measured and monitored based on the balance between the maximum exposure limit (dependent of the assigned risk level) and the exposure arising from the several relationship types (clearing member, custodian bank, liquidity provider) avoiding wrong-way risk.
- b) Under its CCP role OMIClear **collects and settles mark-to-market losses and gains** on a daily basis and potential future exposures on the positions registered are backed by **initial margin**;
- c) Regarding the **collateral rules**, the eligible assets are compliant with EMIR, i.e. highly liquid assets, in particular cash (only Euros), public debt securities (only denominated in Euros) and bank guarantees or credit lines (these two assets are accepted by OMIClear, as long as they are considered eligible collateral by the European regulation). These securities are only kept in CSDs and subject to several types of concentration limits and prudent haircuts (minimizing both market and liquidity risks). Furthermore, there is certainty on the enforceability of the collateral arrangements

between OMIClear and its counterparties (title transfer and pledge collateral). All these principles and rules apply both to members collateral and custodian banks collateral (arising from OMIClear's cash investments);

- d) The **investment policy** focus on counterparty credit risk of the custodian bank (when the cash is invested in an entity other than the central bank) as referred to in subparagraph a), does not allow for cash investments in other currencies (no currency risk) and the investments in securities are limited to OMIClear's own cash funds and to 5% of the cash collateral of its Participants. Several other rules apply to ensure full availability of funds and minimize liquidity risk: i) repo transactions are of overnight type or may be cancelled with short prior notice; ii) the term of collateralized deposits must ensure an withdrawal within 1 business day; iii) concentration limits on cash investments established to ensure an adequate diversification for both cash own funds and cash collateral and aggregates counterparty relationships (same company group); iv) concentration limits applied to OMIClear's investments in securities.
- e) For intraday losses arising from price fluctuations across each session OMIClear collects a specific margin ("non-realised profit and loss margin"). Once the settlement prices are disclosed this margin no longer applies since the final mark-to-market is computed and cash settled through the normal "Daily Financial Settlement" (DFS) - processed at 09h00 CET with value date of D+1. Under extreme market volatility (high increase of non-realised profit and loss margin) OMIClear may trigger an "**Extraordinary Financial Settlement**" (EFS) to anticipate the exceptional intraday losses through an automatic debit of the respective settlement banks' accounts at TARGET system. The amounts debited are dealt as cash collateral of the members concerned and the members with gains will only be paid by OMIClear under the DFS (with value date of D+1). In this context, the risk of a liquidity shortfall under an EFS event might be faced not on D but on D+1 within the DFS process (since the procedure is asymmetric: members with gains in mark-to-market of session D will be effectively paid on the value-date of D+1).
- f) OMIClear's **Daily Financial Settlement**, as explained in Principle 9 (Money Settlement), is based on robust settlement procedure of TARGET payment system – "Simultaneous Multilateral Settlement" – whereby OMIClear automatically debits and credits the RTGS accounts of the settlement banks concerned at the same time on an "all or nothing" approach. The payments are considered "highly urgent payments", meaning they assume the highest priority in case of insufficient liquidity in a given RTGS account. In this scenario OMIClear receives a notification from TARGET system and will take the required actions according to solve the liquidity shortfall (details provided below).

Given the 6 principles and procedures in place, when dealing with the liquidity risk OMIClear focuses on addressing the following potential scenarios in **the course of the Daily Financial Settlement (DFS)**:

- i. A Clearing Member defaults and OMIClear must assure its payments;

- ii. A settlement bank (Financial Settlement Agent) defaults and OMIClear must assure the payments due by the Clearing members for whom it provides payment services;
- iii. A Clearing Member or a settlement bank faces a temporary liquidity shortfall and delays on getting the RTGS account duly funded to ensure the DFS.

OMIClear analyses each of the above scenarios taking into account the type of collateral deposited by the defaulting clearing member. In other words, the liquidity arrangements in place also consider the time lag of collateral conversion (securities into cash) and also the accessibility of the invested cash (by means of demands deposits, collateralized deposits or and/or repo operations).

### Key Consideration 2

An FMI should have effective operational and analytical tools to identify, measure, and monitor its settlement and funding flows on an ongoing and timely basis, including its use of intraday liquidity.

Settlement and funding flows are analysed on an ongoing and timely basis, namely through:

- ➡ A direct access to SWIFT platform and therefore pay-ins and pay-outs are controlled by the clearing department on a close-to-real time basis.
- ➡ A direct access to TARGET payment system (which is based on SWIFT infrastructure) allowing the clearing department to follow the status of any submitted settlement file (the Daily Financial Settlement or, in exceptional circumstances, the Extraordinary Financial Settlement) and being notified of any lack of funds by one/more settlement bank(s), on a close-to-real time basis.
- ➡ Access to online banking (regarding commercial banks where OMIClear deposits its cash: participants' collateral and own funds).
- ➡ A liquidity report produced on a daily basis by the clearing department (or ad hoc if needed), which is supervised by the Chief Risk Officer, including updated amounts of OMIClear's liquidity needs (resulting from historical payments and stress scenarios), the list of current arrangements with liquidity providers and available amounts to activate in case of a liquidity shortfall event, concentration limits applicable to the current liquidity providers and current exposure limit that OMIClear may assume in terms of liquidity risk.

### Key Consideration 4

A CCP should maintain sufficient liquid resources in all relevant currencies to settle securities-related payments, make required variation margin payments, and meet other payment obligations on time with a high degree of confidence under a wide range of potential stress scenarios that should include, but not be limited to, the default of the participant and its affiliates that would generate the largest aggregate payment obligation to the CCP in extreme but



plausible market conditions. In addition, a CCP that is involved in activities with a more-complex risk profile or that is systemically important in multiple jurisdictions should consider maintaining additional liquidity resources sufficient to cover a wider range of potential stress scenarios that should include, but not be limited to, the default of the two participants and their affiliates that would generate the largest aggregate payment obligation to the CCP in extreme but plausible market conditions

As described in Key Consideration 1 (subparagraphs a) to f)), OMIClear has in place a robust set of internal policies, rules and procedures that provide a high level of confidence in its ability to reduce the sources of liquidity risk. Given this framework, OMIClear's Liquidity Plan focuses on the potential liquidity needs arising from the default in the payment obligations (by a clearing member or its settlement bank) within the Daily Financial Settlement scope. To determine such liquidity needs OMIClear considers the principles referred in article 44 of EMIR and article 32 of RTS 153/2013, in particular:

- a) Stress test scenarios under extreme but plausible market conditions, including potential changes on clearing members' collateral profile. The worst result of the following calculations are selected:
  - i. the default of the clearing member (and its affiliates) that would generate the largest aggregate payment obligation to the CCP (top1); and
  - ii. the 2 clearing members member (and its affiliates) that would generate the largest aggregate payments obligations to the CCP (top1 + top2)
- b) Historical payments carried out by the clearing members and its settlement banks. The worst result of the following calculations are selected:
  - i. the highest historical payment (from the date of a default until the end of a liquidation) of the clearing member (and its affiliates) that would generate the largest aggregate payment obligation to the CCP (worst between top1 and top1 + top2); and
  - ii. the highest historical payment (from the date of a default until the end of a liquidation) of the settlement bank (and its affiliates) that would generate the largest aggregate payment obligation to the CCP (worst between top1 and top1 + top2).

The worst result between methodology a) and b) is selected.

Available liquidity sources are compared to the required financing needs daily.

OMIClear only clears standard products which do not have complex risk profiles and is not considered systemically important across multiple jurisdictions.

## Key Consideration 5

For the purpose of meeting its minimum liquid resource requirement, an FMI's qualifying liquid resources in each currency include cash at the central bank of issue and at creditworthy commercial banks, committed lines of credit, committed foreign exchange swaps, and committed repos, as well as highly marketable collateral held in custody and investments that



are readily available and convertible into cash with prearranged and highly reliable funding arrangements, even in extreme but plausible market conditions. If an FMI has access to routine credit at the central bank of issue, the FMI may count such access as part of the minimum requirement to the extent it has collateral that is eligible for pledging to (or for conducting other appropriate forms of transactions with) the relevant central bank. All such resources should be available when needed.

As a central counterparty OMIClear's liquid resources are managed in compliance with its credit risk, investment and liquidity policies in order to ensure a capital preservation and ready access to liquid resources to meet stressed liquidity requirements. The collateral rules in place are also a crucial component when designing the liquidity plan since it also contributes for the mitigation of CCP's liquidity risk (common eligible assets for members' collateral and for custodian banks: only cash and sovereign debt that is also eligible by central bank and subject to conservative haircuts and continuing market evaluation).

OMIClear has in place diversified and highly reliable liquidity resources, including a comfortable excess amount (only Central Bank money) comparing to its needs under extreme but plausible market conditions. These liquid resources of OMIClear are compliant with Article 33 of the RTS 153/2013 and composed of (i) central bank intraday credit line, (ii) OMIClear's own resources (iii) committed lines of credit, (iv) readily available members' cash collateral, (v) borrowing from non-defaulting clearing members, (vi) uncommitted lines of credit and (vii) central bank overnight credit line.

In order to safeguard the CCP and its Clearing Members, OMIClear follows a restrictive investment policy for cash investments:

- ➊ Cash investments take place on a short-term basis;
- ➋ Securities received in repo transactions are the same as those accepted from clearing members for collateral (i.e. must be central bank eligible and are subject to the same haircuts rules) and the legal regime in place is the fiduciary transfer;
- ➌ Cash investments only takes place at counterparties with high creditworthiness (according to OMIClear's Credit Risk Policy);
- ➍ Investments in securities are limited to OMIClear's own cash funds and a maximum of 5% of the cash collateral from its Participants and subject to concentration limits;
- ➎ Concentration limits that seek the adequate diversification for both cash own funds and cash collateral and aggregates counterparty relationships (affiliates).

Credit facilities with central bank and commercial banks are tested by OMIClear on a regular basis in order to streamline and expedite the process in case a real activation is needed.

Regarding OMIClear's access to central bank's intraday credit line, OMIClear ensures that enough collateral is permanently pledged with the central bank, which allows for the use of such credit line on an immediate basis in order to effect settlement of payment obligations on time.

## Key Consideration 6

An FMI may supplement its qualifying liquid resources with other forms of liquid resources. If the FMI does so, then these liquid resources should be in the form of assets that are likely to be saleable or acceptable as collateral for lines of credit, swaps, or repos on an ad hoc basis following a default, even if this cannot be reliably prearranged or guaranteed in extreme market conditions. Even if an FMI does not have access to routine central bank credit, it should still take account of what collateral is typically accepted by the relevant central bank, as such assets may be more likely to be liquid in stressed circumstances. An FMI should not assume the availability of emergency central bank credit as a part of its liquidity plan.

As mentioned in the previous Key Consideration, OMIClear has in place a wide range of qualifying liquid mechanisms such as central bank intraday credit line, own funds, committed credit lines, members' cash collateral, borrowing from non-defaulting clearing members, uncommitted credit lines and (as last resort) central bank overnight credit line. OMIClear ensures and monitors on a regular basis that its liquidity needs are sufficiently covered by such liquid resources.

OMIClear's Investment Policy requires that the assets received via repo transactions to be the same as those accepted as collateral from its members (i.e. Portuguese sovereign debt which are central bank eligible). Furthermore, OMIClear's investments in securities are also limited to those same assets (i.e. also central bank eligible). Hence OMIClear only holds assets that are accepted by the central bank allowing it to activate the intraday credit line when needed without restrictions.

## Key Consideration 7

An FMI should obtain a high degree of confidence, through rigorous due diligence, that each provider of its minimum required qualifying liquid resources, whether a participant of the FMI or an external party, has sufficient information to understand and to manage its associated liquidity risks, and that it has the capacity to perform as required under its commitment. Where relevant to assessing a liquidity provider's performance reliability with respect to a particular currency, a liquidity provider's potential access to credit from the central bank of issue may be taken into account. An FMI should regularly test its procedures for accessing its liquid resources at a liquidity provider.

As already outlined, OMIClear has access to adequate liquidity to perform its services and activities. OMIClear takes appropriate measures (e.g.: liquidity stress tests) to anticipate and avoid potential liquidity shortfalls. In case further funding sources are required, OMIClear has contractual relationships with several, well rated commercial banks to provide committed credit facilities to OMIClear.

OMIClear performs due diligences of its liquidity providers in the form of a credit assessment. The assessment is made annually and event-driven. Credit facilities are only maintained with

banks that hold a minimum risk level assigned by OMIClear. All credit facilities of OMIClear are tested on a regular basis to ensure their availability.

As only financial institutions are providing OMIClear's credit facilities, central bank access by those liquidity providers should be assumed.

### **Key Consideration 8**

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An FMI with access to central bank accounts, payment services, or securities services should use these services, where practical, to enhance its management of liquidity risk.

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OMIClear has access to the central bank facilities of the Eurosystem and uses central bank accounts for its clearing currency (EUR).

Therefore, clearing business related payments and settlement is being conducted in central bank money.

OMIClear has access to EUR intraday and overnight credit facilities provided by "Banco de Portugal" (Portuguese Central Bank). Furthermore, cash that is not being placed secured, through reverse repo transactions, can be deposited with central banks.

### **Key Consideration 9**

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An FMI should determine the amount and regularly test the sufficiency of its liquid resources through rigorous stress testing. An FMI should have clear procedures to report the results of its stress tests to appropriate decision makers at the FMI and to use these results to evaluate the adequacy of and adjust its liquidity risk management framework. In conducting stress testing, an FMI should consider a wide range of relevant scenarios. Scenarios should include relevant peak historic price volatilities, shifts in other market factors such as price determinants and yield curves, multiple defaults over various time horizons, simultaneous pressures in funding and asset markets, and a spectrum of forward-looking stress scenarios in a variety of extreme but plausible market conditions. Scenarios should also take into account the design and operation of the FMI, include all entities that might pose material liquidity risks to the FMI (such as settlement banks, nostro agents, custodian banks, liquidity providers, and linked FMIs), and where appropriate, over a multiday period. In all cases, an FMI should document its supporting rationale or, and should have appropriate governance arrangements relating to, the amount and form of total liquid resources it maintains.

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OMIClear's Liquidity Risk Management Framework intends to ensure availability of sufficient financial resources at any time to cover either liquidity needs stemming from the CCP settlement business itself ("Business-as-usual") or from a potential clearing member default ("Cover2 Default"). For all potential sources of liquidity risk, daily stress tests applying different scenarios are being performed. For all liquidity stress test scenarios, the liquidity requirements are compared to available liquidity resources.

In its liquidity stress tests, OMIClear analyses the multiple roles of Entities involved: Clearing Members, Financial Settlement Agents and Custodian banks.

The liquidity stress tests framework is defined, regularly reviewed and validated by CCP Risk Management. The stress testing results are regularly reported to the Board of Directors. In this process, all figures and assumptions are discussed and revised internally to adjust to changed conditions, if necessary.

### Key Consideration 10

An FMI should establish explicit rules and procedures that enable the FMI to effect same-day and, where appropriate, intraday and multiday settlement of payment obligations on time following any individual or combined default among its participants. These rules and procedures should address unforeseen and potentially uncovered liquidity shortfalls and should aim to avoid unwinding, revoking, or delaying the same-day settlement of payment obligations. These rules and procedures should also indicate the FMI's process to replenish any liquidity resources it may employ during a stress event, so that it can continue to operate in a safe and sound manner.

As outlined in other Key Considerations of this Principle the goal of OMIClear's liquidity risk management is designed to meet all payment obligations at any time while ensuring settlement efficiency of CCP transactions. Additionally, a potential default of one or more Clearing Members needs to be considered as potential liquidity risk and must be covered with sufficient financial resources allowing OMIClear to make payments to the Clearing Members that are complying with their obligations.

As part of the day-to-day liquidity management, an early warning and contingency event triggers are in place. If such predefined thresholds are exceeded OMIClear shall re-evaluate the liquidity plan.

### Assessment of principle:

Observed

## 3.8 Principle 8: Settlement finality

***An FMI should provide clear and certain final settlement, at a minimum by the end of the value date. Where necessary or preferable, an FMI should provide final settlement intraday or in real time.***

### Key Consideration 1

An FMI's rules and procedures should clearly define the point at which settlement is final.

As mentioned in the following Principle (Money Settlement), and as provided for in Article 62 of OMIClear's Rulebook, the financial settlement of the positions registered in OMIClear is performed according to the regulation on the Trans-European Automated Real-time Gross Settlement Express Transfer System (TARGET). All the details concerning the procedures and

timings of the financial settlement carried out by the CCP are included in OMIClear's Instruction B08/2014 (Financial Settlement).

TARGET is a special settlement system designated by Settlement Finality Directive.

Three of the main principles of Settlement Finality Directive are the following:

- a) Transfer orders and netting shall be legally enforceable and binding on third parties even in the event of insolvency proceedings against a participant, provided that transfer orders were entered into the system before the moment of opening of such insolvency proceedings as defined in Article 6(1).
- b) The irrevocability feature of payment orders. Irrevocability is in close connection with finality. The moment of entry of a transfer order into a system is defined by the rules of the system in question.

According to TARGET regulation transfer orders are protected by entering into TARGET system at the moment that relevant participants' accounts (Real Time Gross Settlement Dedicated Cash Accounts – RTGS DCA) are debited. The only exception of payment order revocation is the moment until it is entered into TARGET. The moment when the transfer orders enter into TARGET corresponds to the moment at which OMIClear submits the settlement file ('AS Transfer Initiation' message) in such platform. For further details please refer to the following Principle (Money Settlement). TARGET system also excludes insolvency proceedings effect and their possible retroactive application of a transfer order entered in a system.

Although OMIClear's rules do not explicit refer the point at which settlement is final, it becomes inherent to its participation as "Ancillary System" at TARGET payment system which is mentioned in its Instruction B08/2014 - Financial Settlement.

## Key Consideration 2

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An FMI should complete final settlement no later than the end of the value date, and preferably intraday or in real time, to reduce settlement risk. An LVPS or SSS should consider adopting RTGS or multiple-batch processing during the settlement day.

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As further detailed in the following Principle (Money Settlement), in OMIClear the financial settlement of the net balances regarding a session D is daily disclosed through the clearing platform to the participants (clearing members and respective payment agents connected to TARGET) on day D and processed on the value date of D+1.

Therefore, OMIClear reduces settlement risk since:

- ☞ The "point at which settlement is final" is the moment of OMIClear's submission of the settlement file regarding session D into TARGET platform - around 20h30 CET of the previous clearing day (D-1).

- ⊕ OMIClear acting as “Ancillary System” of TARGET, is able to require the authorisation to automatically debit the Real Time Gross Settlement Dedicated Cash Accounts (RTGS DCA) of its payment agents.
- ⊕ The settlement model adopted by OMIClear is the “Simultaneous Multilateral Settlement” (Procedure B), meaning that the debits and credits are posted simultaneously in the TARGET platform and simultaneously checked for settlement on an all-or-nothing basis. Under this procedure, the central bank checks (in coordination with OMIClear) that all pay-ins are settled before opening the pay-out phase. If all pay-ins cannot be settled than the algorithm restarts the checking procedure of pay-ins. If the “algorithm end-time” is reached (which is specified by OMIClear in the submitted file) and the pay-in were not settled than all the payments (both pay-ins and pay-outs) included the settlement file are revoked and OMIClear can easily check in the system which payment agent(s) is(are) responsible for this situation.
- ⊕ The procedure B allows OMIClear to pre-announce the financial settlement through the TARGET platform (therefore, besides the reports provided in the clearing platform on session D, the payment agents have an additional channel to confirm at the end of session D the amounts to be cash settled on the value-date of D+1 (the so called “information period”).

### Key Consideration 3

An FMI should clearly define the point after which unsettled payments, transfer instructions, or other obligations may not be revoked by a participant.

Please refer to OMIClear’s answer in Key Consideration 1.

### Assessment of principle:

Observed

## 3.9 Principle 9: Money Settlement

***An FMI should conduct its money settlements in central bank money where practical and available. If central bank money is not used, an FMI should minimise and strictly control the credit and liquidity risk arising from the use of commercial bank money.***

### Key Consideration 1

An FMI should conduct its money settlements in central bank money, where practical and available, to avoid credit and liquidity risks.

OMIClear conducts the cash settlements inherent to the positions registered in the CCP on a daily basis in central bank money according to the regulation on the Trans-European Automated Real-time Gross Settlement Express Transfer System (TARGET), in particular the



TARGET-PT Regulation, the Portuguese component of TARGET run and managed by the Portuguese Central Bank (Banco de Portugal). The settlement model used by OMIClear (acting as “Ancillary System” of this payment system) is the “Simultaneous Multilateral Settlement”, whereby the credit and debit balances of each Clearing Member (or its respective payment agent) are cash settled in the respective accounts at TARGET system on a simultaneous and multilateral way, based on an “all or nothing approach”.

The requisites to become a payment agent (called “Financial Settlement Agent” - the entity responsible to perform the financial settlement of its own positions held in OMIClear at TARGET, in case it also acts as Clearing Member, or the positions of the Clearing Members to which the payment agent provides financial settlement services) include the following:

- a) The participation in TARGET payment system (as “Direct Participant”, “Indirect Participant” or “BIC Addressee”) and therefore to hold directly or indirectly a “Real Time Gross Settlement Dedicated Cash Account (RTGS DCA) in the TARGET system and;
- b) An authorisation granted to OMIClear (as “Ancillary System” of this payment system) to automatically perform debit or credit movements at the respective RTGS DCA.

In terms of daily procedures, the following is performed, as detailed in OMIClear’s Instruction B08/2014 – Financial Settlement:

1. On each session (D), following the end-of-day procedures (until 20h30 CET):
  - a) OMIClear provides each Clearing Member and each payment agent through its clearing platform the amount to be cash settled at TARGET on the following session (D+1) at 9h00 CET. A payment agent that acts on behalf of more than one Clearing Member receives information on each of its client as well as the global net balance (the one that will be credited/debited in its RTGS DCA);
  - b) OMIClear submits the settlement file regarding session D (with value-date of 9h00 CET of D+1) into the TARGET system. After this submission all the payment agents can check at TARGET system the amounts to be cash settled in their RTGS DCA on the following TARGET day. The period starting from the moment of the settlement file submission (around 19h30 until 20h30 CET of session D) until the settlement time (9h00 CET of session D+1) is called “Information Period” – period during which a generally disseminated message is sent on the payment agents concerned indicating the time from which Simultaneous Multilateral Settlement is triggered.
2. At 9h00 CET the Simultaneous Multilateral Settlement is triggered in TARGET system (an algorithm that is run from 9h00 to 10h00 CET, as specified by the CCP in the submitted file – the so called ‘settlement period’). OMIClear is able to access to the TARGET system and check the status of the settlement process. It shall be mentioned that the payments under the scope of “Ancillary System” are assigned the priority ‘urgent’. This means that this type of payments assumes the highest priority in case of insufficient liquidity of each payment agent’s account. In case there is a lack of funds in any of the accounts involved OMIClear receives a notification and will take the required actions according to its rules.



In this context credit or liquidity risks are mitigated. Operational risk is also minimized by the daily reconciliations carried out by the clearing department staff concerning the final net balances to be cash settled in each RTGS account of each payment agent.

## Key Consideration 2

If central bank money is not used, an FMI should conduct its money settlements using a settlement asset with little or no credit or liquidity risk.

Not applicable.

## Key Consideration 3

If an FMI settles in commercial bank money, it should monitor, manage, and limit its credit and liquidity risks arising from the commercial settlement banks. In particular, an FMI should establish and monitor adherence to strict criteria for its settlement banks that take account of, among other things, their regulation and supervision, creditworthiness, capitalisation, access to liquidity, and operational reliability. An FMI should also monitor and manage the concentration of credit and liquidity exposures to its commercial settlement banks.

Not applicable.

## Key Consideration 4

If an FMI conducts money settlements on its own books, it should minimise and strictly control its credit and liquidity risks.

Not applicable.

## Key Consideration 5

An FMI's legal agreements with any settlement banks should state clearly when transfers on the books of individual settlement banks are expected to occur, that transfers are to be final when effected, and that funds received should be transferable as soon as possible, at a minimum by the end of the day and ideally intraday, in order to enable the FMI and its participants to manage credit and liquidity risks.

Not applicable.

## Assessment of principle:

Observed

### 3.10 Principle 10: Physical deliveries

***An FMI should clearly state its obligations with respect to the delivery of physical instruments or commodities and should identify, monitor, and manage the risks associated with such physical deliveries.***

#### Key Consideration 1

An FMI's rules should clearly state its obligations with respect to the delivery of physical instruments or commodities.

The power derivatives contracts cleared by OMIClear (listed in its Instruction B14/2014 (Eligible Contracts)) are of type "financial" and "physical". It is worth mentioning that the term "physical" does not imply a physical reception or delivery of power (MWh) in the Spanish or Portuguese power grid, but instead a notification of the participants holding net positions in the physical derivatives contracts fulfilling delivery to the Spanish power spot market. This notification process is carried out by OMIClear during the delivery period of such contracts and based on an agreement signed by OMIClear and OMIE (the manager of the Spanish Spot market).

The obligations concerning the delivery of the commodity cleared by OMIClear is clearly defined not only in each products specification (General Contractual Terms) but also in OMIClear's Instruction B13/2014 (Settlement in the Delivery Period). In this Instruction the liabilities of OMIClear and its participants regarding the physical delivery are clearly identified, in particular the fact that:

- ⊕ OMIClear's responsibility is limited to the notification process of each net position to OMIE power spot market. The subsequent phase is not a liability of OMIClear since it will follow the specific rules of this spot market.
- ⊕ OMIClear and Clearing Members are only responsible for the financial settlement inherent to the positions in the physical power derivatives contracts. The physical delivery itself is regulated by OMIE rules.
- ⊕ The participant holding physical derivatives positions<sup>(1)</sup> must confirm the position that is automatically integrated in the daily auctions of OMIE spot market following OMIClear's notification and the final quantity to assigned results from the specific rule of this market.

<sup>(1)</sup> It shall be mentioned that a participant that holds physical derivatives positions must act as a power physical settlement agent in OMIClear (or outsource this service to an entity that assumes this role). Therefore, it must sign an agreement where the rights and obligations of both parties are clearly listed. The requisite to be a power physical settlement agent is to be an OMIE's agent.

In the context of natural gas derivatives contracts OMIClear clears both physically settled and financially settled natural gas contracts. The list of contracts accepted for registration, clearing and settlement at OMIClear are always listed in its Instruction B14/2014 (Eligible Contracts). It is worth mentioning that the term "physical settlement" implies a title transfer in the balancing portfolio the counterparties at the corresponding Spanish virtual trading point (PVB - 'Punto

Virtual de Balance' or TVB – 'Tanque Virtual de Balance'). This notification process is carried out by OMIClear daily during the delivery period of such contracts and based on a cooperation protocol agreement signed by OMIClear and Enagás GTS (Spanish Transport System Operator). Counterparties (buyers and sellers) with open positions are also automatically informed about the "physical delivery" (i.e. physical notification to Enagás-GTS).

The obligations concerning the delivery of the commodity cleared by OMIClear are clearly defined not only in each products specification (General Contractual Terms) but also in OMIClear's Instruction B19/2014 (Notification Natural Gas Physical Positions to the System Operators). In this Instruction the liabilities of OMIClear and its participants regarding the physical delivery are clearly identified, in particular, the fact that:

- ⊕ OMIClear's responsibility is limited to the notification process of each net position to Enagás GTS (Spanish Transmission System Operator). The subsequent phase is not a liability of OMIClear since it will follow the specific rules of the TSO.
- ⊕ OMIClear and Clearing Members are only responsible for the financial settlement inherent to the positions in the physical natural gas derivatives contracts. The physical delivery itself is regulated by Enagás GTS rules.
- ⊕ The participant holding physical derivatives positions<sup>(1)</sup> must confirm the position that is automatically integrated in the Virtual Balancing Point following OMIClear's notification.

<sup>(1)</sup> It shall be mentioned that a participant holding physical derivatives positions must act as a natural gas physical settlement agent in OMIClear (or outsource this service to an entity that assumes this role). Therefore, it must sign an agreement where the rights and obligations of both parties are clearly listed. The requisite to be a natural gas physical settlement agent is to be an authorised user in Enagás GTS with a balancing account in the relevant hub (PVB and/or TVB).

## Key Consideration 2

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An FMI should identify, monitor, and manage the risks and costs associated with the storage and delivery of physical instruments or commodities.

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As mentioned in the previous Key Consideration, in the case of electricity contracts the physical settlement process occurs through a daily notification process to the managing entity of Spanish power spot market (OMIE). This daily notification consists of OMIClear informing OMIE on the net position on power derivatives contracts on the physical delivery account held by each Physical Settlement Agent (i.e. an OMIE's agent). According to the agreement signed by OMIClear and OMIE, under the scope of MIBEL, in order to be accepted as physical settlement agent in OMIClear and to assume the responsibility of ensuring the physical delivery of positions on power derivatives contracts, the entity must be a participant of OMIE's spot market and hold a specific account to record the positions coming from the power derivatives market (OMIP). Furthermore, in the physical settlement agent admission the entity must authorise OMIClear to perform the notification of its positions to OMIE on its behalf.

The physical settlement of power derivatives contracts cleared by OMIClear comprehends the automatic integration of each net position as bid/offer order into the daily auction of OMIE according to the specific rules of this market. The notification process carried out by OMIClear has no interrelationship between the physical power network in Spain or Portugal. Therefore, the OMIClear notification process ends once the notification has been accepted by the power spot market. The buy/sell quantity (MW) effectively assigned to each agent arising from OMIE daily auctions are exclusively subject to the market rules of this operator.

In this context the CCP risk is limited to the potential failure of the notification process with OMIE. To minimize this risk OMIClear and OMIE have in place operational procedures and safeguards which allow OMIClear to deliver notifications to the spot market in an event of systems malfunctioning.

Regarding the physical natural gas derivatives contracts the physical settlement process is performed by OMIClear through a 'single-sided nomination' process to the Spanish natural gas TSO (Enagás GTS) that generates a title transfer in the balancing portfolios ('*carteras de balance*') at the corresponding virtual trading point ('Punto Virtual de Balance' (PVB) or 'Tanque Virtual de Balance' (TVB) of each counterparty (buyer and seller) concerned.

#### Assessment of principle:

Observed
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### 3.11 Principle 11: Central Securities Depositories

***A CSD should have appropriate rules and procedures to help ensure the integrity of securities issues and minimize and manage the risks associated with the safekeeping and transfer of securities. A CSD should maintain securities in an immobilized or dematerialized form for their transfer by book entry.***

Principle 11 is not applicable to OMIClear because it is not a CSD.

### 3.12 Principle 12: Exchange-of-value settlement systems

*If an FMI settles transactions that involve the settlement of two linked obligations (for example, securities or foreign exchange transactions), it should eliminate principal risk by conditioning the final settlement of one obligation upon the final settlement of the other.*

#### Key Consideration 1

An FMI that is an exchange-of-value settlement system should eliminate principal risk by ensuring that the final settlement of one obligation occurs if and only if the final settlement of the linked obligation also occurs, regardless of whether the FMI settles on a gross or net basis and when finality occurs.

Not applicable.

#### Assessment of principle:

This principle does not apply to OMIClear given the commodities that are cleared by this CCP: power and natural gas derivatives contracts. The cash settlement arising from positions registered in any of the eligible contracts is netted into one single amount processed in one single settlement cycle at TARGET payment system. There are no linked obligations involved in this financial settlement.

### 3.13 Principle 13: Participant-default rules and procedures

*An FMI should have effective and clearly defined rules and procedures to manage a participant default. These rules and procedures should be designed to ensure that the FMI can take timely action to contain losses and liquidity pressures and continue to meet its obligations.*

#### Key Consideration 1

An FMI should have default rules and procedures that enable the FMI to continue to meet its obligations in the event of a participant default and that address the replenishment of resources following a default.

OMIClear has effective and clearly defined rules and procedures to manage a participant default which are compliant with the applicable regulation, namely articles 48 and 49 of EMIR and articles 58 and 59 of EMIR RTS.

OMIClear's default procedures are laid down in several rules, which are hereby listed, providing an important degree of authority and flexibility in how to best implement such procedures following a default event and also allowing OMIClear to contain losses, liquidity pressures and its obligations as CCP:

- **Rulebook (specially articles 69 to 75)** – including provisions defining the events for OMIClear’s declaration of default by a participant, the list of CCP powers under exceptional circumstances; and general rules concerning the CCP’s procedures in case of default);
- **Instruction A09/2014 (Defaults)** – specifying the definition of “default”, including procedures regarding the communications involving affected participants, market operators, Regulators, other CCPs and establishing rules when the defaulting participant acts in several services in OMIClear;
- **Instruction B18/2014 (Procedures in Case of Default)** – describing the actions to be taken for different default scenarios for the current OMIClear’s service on Power and Natural Gas Derivatives Contracts such as:
  - i) Default of a clearing member’s client and when there is no default by the clearing member;
  - ii) Default of a clearing member, separating the procedures for scenarios whereas the member holds segregated clearing accounts from those when the member holds omnibus clearing accounts;
  - iii) Default of a clearing member processing its own positions.

In this instruction more details are provided concerning the procedures carried out by OMIClear for the management of the positions held by a defaulting clearing member through continuous trading, special auctions set up to offset the outstanding positions or through OTCs. As last resort a tier up mechanism can be used (by which the closure procedure uses the open Positions of other Clearing Members and their Clients that are strictly necessary to close the defaulting Positions);

- **Instruction B08/2014 (Financial Settlement)** – identifying the circumstances of default and respective procedures to be adopted when the clearing member or a financial settlement agent do not comply with their payment obligations with OMIClear. A list of several liquidity resources allowing OMIClear to conduct the normal settlement cycle at TARGET payment system are also described in this rule;
- **Instruction A05/2014 (Accounts)** – including the different types of clearing accounts in terms of collateral segregation and explaining the procedures inherent to the portability of positions and collateral in case of default.

The rules focusing on OMIClear’s powers to apply the different type of resources to manage a default can be found in the above-mentioned Instructions A09/2014 and B18/2014 and also in the following ones:

- **Instruction A06/2014 (Management and Evaluation of Guarantees)** – specifying the type of assets accepted as collateral in OMIClear, the legal regime for each asset type, the purpose of this collateral and the CCP’s powers to enforce them in case of a participant’s default;
- **Instruction B12/2014 (Default Waterfall)** – describing the priority order of assets to be used when there is a clearing member’s default (defaulter’s margins, OMIClear’s

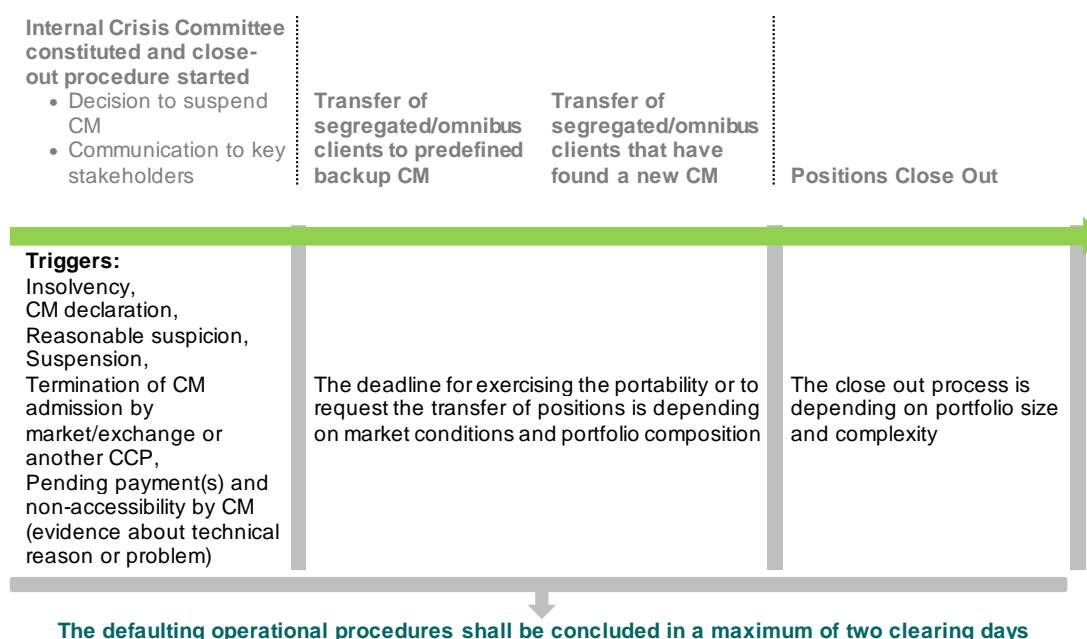
dedicated funds (including “Skin in the Game” amount), clearing fund contributions (pre-funded) of non-defaulting clearing members, OMIClear’s additional dedicated funds (“Second Skin in the Game”) and clearing fund contributions (not-prefunded) of non-defaulting clearing members);

- **Instruction B07/2014 (Clearing Fund)** – including the procedures related with the activation of the clearing fund (pre-funded), additional responsibility to the clearing fund (not-prefunded) based on OMIClear’s default waterfall described in Instruction B12/2014). It also establishes the conditions regarding the replenishment of the clearing fund contributions by the clearing members, in order to bring the level of the total clearing fund to its proper level.

A default can only be declared after approval by OMIClear's Senior Management. Once the default of a Clearing Member (CM) has been declared, OMIClear manages it according to the size and structure of the open positions and pending transactions.

The Chief Risk Officer calls the Internal Crisis Committee (ICC) which has the authority to make decisions regarding management of the default. The ICC is composed of the Executive members of the Board, the Chief Operating Officer, the Chief Risk Officer, the Head of Clearing, the Legal Advisor and the Chief Compliance Officer.

The close out process of the defaulting positions is conducted according to the following flow:





## Key Consideration 2

An FMI should be well prepared to implement its default rules and procedures, including any appropriate discretionary procedures provided for in its rules.

As part of its default procedures management framework OMIClear has in place a Default Procedures Plan developed in consultation with and review at least annually by Risk Committee and subject to the approval of its Board of Directors. This plan addresses the potential defaults of its counterparties including a wide testing program in order to ensure that OMIClear is well prepared to implement the default rules and procedures in place (and listed in the previous Key Consideration).

Through its default testing program OMIClear is able to check if all the stakeholders involved in a default situation are aware of their role in a default process and if the procedures to be taken are well known by all of them and are working properly. In order to have a complete description of the procedures sequence and different actions to be carried out in the default management OMIClear has designed specific operational guides (which are subject to revision at least annually) for each defaulting counterparty: *i)* a default of a cash custodian bank; *ii)* a default of a Clearing Member's client; a default of a Direct Clearing Member; and *iii)* a default of a General Clearing Member.

OMIClear's Clearing Rules and default procedures provide reasonable discretion to the CCP in managing a default to provide sufficient flexibility to manage each unique default scenario.

The default rules in combination with a robust and pre-defined default management plan (annually reviewed by the Risk Committee and Board of Directors) provide OMIClear with great confidence of its capacity to keep meeting its obligations after the event of a counterparty's default.

OMIClear Instruction A09/2014 - Defaults provides for the set of communications that will be triggered in case of default of a participant:

- i. to the CMVM and, if applicable, to any other supervisory entity of the participant;
- ii. to the Market Operators or similar Entities that relate to OMIClear as part of the Services provided by the latter and having participants directly affected by the default;
- iii. to OMIClear's Participants directly affected, including clients or other Clearing Members, as defined in the applicable rules of the Services concerned;
- iv. to other CCPs with which OMIClear has entered into information exchange agreements.

The Internal Crisis Committee is the body charged with duly reporting to the Competent Authorities, the defaulting Clearing Member and its Clients, and the markets or trading systems with which OMIClear has entered into the corresponding agreements and, if deemed convenient, to CCPs comprising EACH.

### Key Consideration 3

An FMI should publicly disclose key aspects of its default rules and procedures.

The key aspects of default rules and procedures are well documented in the rules mentioned in Key Consideration 1 and publicly disclosed in OMIClear's website (<https://www.omiclear.pt/en/default-management> and <https://www.omiclear.pt/en/normative>).

The mechanisms to help address the defaulting clearing member's obligations to its clients are explained in paragraphs 27 to 46 of Instruction B18/2014 - Procedures in Case of Default.

### Key Consideration 4

An FMI should involve its participants and other stakeholders in the testing and review of the FMI's default procedures, including any close-out procedures. Such testing and review should be conducted at least annually or following material changes to the rules and procedures to ensure that they are practical and effective.

The abovementioned Default Procedures plan includes a testing program reviewed at least annually. Upon each exercise OMIClear reviews whether the default test procedures are adequate and, where necessary, amends those procedures.

In its default testing program OMIClear includes all the potential stakeholders involved in a default process:

- ➊ Internal stakeholders (Executive Members of the Board of Directors, OMIClear's Departments, the Internal Crisis Committee and the Crisis Sub-Committee);
- ➋ External stakeholders directly involved in the default process (including the defaulter clearing member and its clients, banks guarantee issuers, banks providing liquidity, custodian banks, CSDs); and
- ➌ External stakeholders non-directly involved in the default process – Market (including OMIP, MIBGAS, MIBGAS Derivatives, Brokers, non-defaulting CMs, CMVM and EACH).

The purpose is to test all potential procedures involved in the resolution of a default, namely the following topics:

- ➊ Procedures regarding **internal stakeholders**, including:
  - The internal communication procedures;
  - The Board of Directors involvement;
  - The Risk Committee involvement (define Crisis Sub-Committee (CSC) role, update CSC members' contacts and define communications templates).

- ➡ Procedures regarding **external stakeholders directly** involved in the default process, including:
  - The communication to the “defaulting” clearing member’s clients with omnibus generic accounts;
  - The communication to the “defaulting” clearing member’s clients with individual or omnibus segregated accounts;
  - The use of all liquidity provisions namely: central bank intraday liquidity, OMIClear’s own resources, commercial banks overnight liquidity and clearing members overnight liquidity;
  - The test of collateral conversion into cash, namely bank guarantees and securities (even if not pledged);
  - The use of the back-up settlement procedures, in order to support a financial settlement agent default.
  
- ➡ Procedures regarding **external stakeholders non-directly involved** in the default process, including:
  - The communication to the market players;
  - The communication to supervision authorities;
  - The communication to others entities – namely EACH (other CCPs);
  - Test the closing of defaulter members positions through continuous trading operations the test trading platforms of OMIP and MIBGAS / MIBGAS Derivatives markets;
  - Test the closing of defaulter members positions through OTC operations (using brokers);
  - Test the closing of defaulter members positions through a special auction (using OMIP specific trading platform for auctions and MIBGAS / MIBGAS Derivatives trading platform);
  - The allocation of positions;
  - The test of the extra required collateral;
  - The tear-up process.

### Assessment of principle:

Observed
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### 3.14 Principle 14: Segregation and portability

***A CCP should have rules and procedures that enable the segregation and portability of positions of a participant's customers and the collateral provided to the CCP with respect to those positions***

#### Key Consideration 1

A CCP should, at a minimum, have segregation and portability arrangements that effectively protect a participant's customers' positions and related collateral from the default or insolvency of that participant. If the CCP additionally offers protection of such customer positions and collateral against the concurrent default of the participant and a fellow customer, the CCP should take steps to ensure that such protection is effective.

OMIClear offers a flexible account structure which encompasses several alternatives in terms of segregation and portability, in compliance with the provisions set out in EMIR articles 39 and 48(6). The details of the account structure as well as of the applicable procedures in case of default are laid down in OMIClear's Instructions A05/2014 (Accounts) and B18/2014 (Procedures in Case of Default). Such rules are publicly available on OMIClear's website.

In OMIClear there are two main types of accounts: Registration Accounts and Clearing Accounts. The former are held by the Clearing Members' clients<sup>4</sup> to record transactions and the latter are held by Clearing Members for the positions bookkeeping and computation of margin and settlement responsibilities. Every Registration Account is linked to a Clearing Account which, depending on its nature, confers different levels of protection in terms of the segregation and portability of the underlying positions and collateral.

When a NCM or its Client opens a Registration Account it must choose, with the Clearing Member's authorization, a Clearing Account to connect to it, bearing in mind that there are different rights and obligations associated to each type of Clearing Account which are thoroughly and clearly stated in the above-mentioned Instructions and summarized in this Principle.

<sup>4</sup> Clearing Members' clients can be: a) Non-Clearing Members" (NCM) which assume the role of Trading Members at OMIP, MIBGAS or MIBGAS Derivatives exchanges, being able to trade through the trading platforms or b) clients of NCM which cannot access the trading platforms but use a trading member to trade on their behalf).

Focusing now on the solutions offered by OMIClear, there are 4 types of Clearing Accounts:

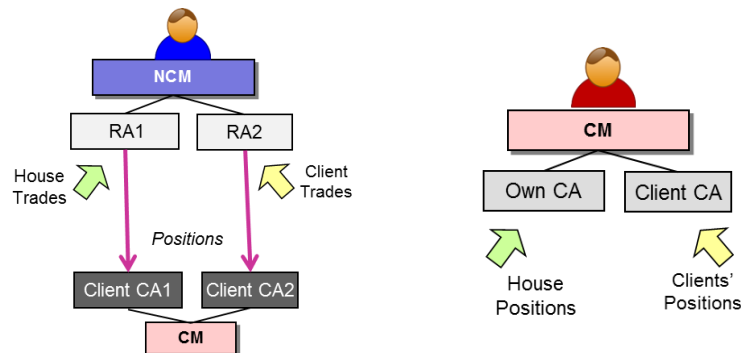
Clearing Account Type	Applicable to	Positions Client by Client Segregation	Collateral House // Client Segregation	Collateral Client by Client Segregation	Positions Portability	Assets Portability	Responsible for collateral deposits with OMIClear	Collateral Legal Regime
Own	CM	Ma	n/a	n/a	n/a	n/a	Clearing Member (CM)	<ul style="list-style-type: none"> <li>Cash: title of transfer</li> <li>Gov. Bonds: financial pledge</li> <li>Collateral Agreement signed by CM for own collateral</li> </ul>
Client "Generic Omnibus"	NCM or Clients	✓ with restrictions (1)	✓	✗	✓ with restrictions (2)	✓ with restrictions (2)	Clearing Member (CM)	<ul style="list-style-type: none"> <li>The same legal regime.</li> <li>Collateral Agreement signed by CM for own collateral</li> </ul>
Client "with Individual Segregation"	NCM or Clients				✓	✓		
Client "with Omnibus Segregation"	NCM or Clients (4)	✓	✓	✓	(3)	(3)	NCM / Client	

- (1) Yes, if Clearing Member's client is a NCM ("Non Clearing Member"). If client is not a NCM the CM may opt to net clients' positions in one single clearing account.
- (2) In case of default of the current Clearing Member (CM), the Clients and/or NCMs with this Clearing Account type must all agree to transfer the total of positions and guarantees to other backup CM according to the deadlines defined by OMIClear to assure the effectiveness of this portability.
- (3) In case of default of the current Clearing Member (CM), a client (Client or NCM) with this Clearing Account type shall present the new clearing agreement with the backup clearing member according to the deadlines defined by OMIClear to assure the effectiveness of this portability.
- (4) This account type is very similar to the accounts with individual segregation. The difference is that OMIClear accepts group of clients (represented by 1 entity) or NCMs belonging to the same company group that agree to clear their trades through one single clearing account, to net their positions for margin purpose and pledge together one single collateral amount. Portability is activated when the representative appointed by the group of clients or group of NCMs requests it to the CCP.

Through this account structure positions and collateral can be ported to other Clearing Members as long as the client(s) and receiving Clearing Member consent. Clients are encouraged to pre-arrange backup Clearing Members in order to speed up the porting process. Additionally, specific forms to activate the portability are provided in OMIClear's website so that the clearing members' clients can easily give clear instructions to OMIClear to move theirs

positions and collateral to an alternative clearing member (following a default of their current clearer).

Furthermore, also aiming the protection of participant's clients from the default or insolvency of that participant, according to OMIClear's rules proprietary trades and clients' trades must be recorded in separate registration accounts. Likewise, proprietary positions and clients' positions must be registered in separate clearing accounts.



Concerning the physical safekeeping of the assets, the segregation between OMIClear's own funds and participants' collateral is continuously fulfilled by opening securities or cash accounts with CSD and banks (respectively) that are either dedicated to own funds or to participants' funds.

## Key Consideration 2

A CCP should employ an account structure that enables it readily to identify positions of a participant's customers and to segregate related collateral. A CCP should maintain customer positions and collateral in individual customer accounts or in omnibus customer accounts.

According to OMIClear's account structure in place (already summarised in the previous Key Consideration) the following is employed:

### ➡ Own Clearing Accounts

- The own clearing accounts can only be used to record the Clearing Member's proprietary positions. Such type of account must be necessarily linked to a specific collateral submitted by the Clearing Member to cover solely its own positions as well as its responsibilities regarding the Clearing Fund contribution. In case of default of the Clearing Member, this collateral cannot be used to liquidate the positions of the Clearing Member's clients, unless it is not necessary to liquidate the clearing member's own positions.

### ➡ Client Clearing Accounts with Individual / Omnibus Segregation:

- The highest level of protection regarding positions and collateral, in case of default of the Clearing Member. Positions in this account type are completely segregated from other house positions and/or clients' positions cleared by said Clearing Member.



Additionally, the collateral allocated to this account is also completely segregated from collateral covering other accounts.

- This means that in case of default of the Clearing Member, the positions and collateral are immediately transferred to another Clearing Member as long as there is already a backup clearing agreement with the latter. In fact, recognizing that the exercise of portability can be problematic if there isn't a backup clearing agreement with a new Clearing Member, OMIClear concedes a 3 days period for the client to present the new clearing agreement. If at the end of such period no clearing agreement is delivered, the positions and collateral are transferred back to the defaulting Clearing Member. Nevertheless, the collateral of segregated clients can only be used to cover the losses for liquidating the positions in the individual segregated account.

### **Client Generic Omnibus Clearing Accounts**

- These accounts are aimed at recording the positions of the Clearing Member clients (NCM and NCM's clients) who do not opt for individual/omnibus segregated accounts. Positions of different NCM are completely segregated from each other and recorded in separate accounts. Only one exception is conceded for NCMs belonging to the same company group: in this case they are allowed to clear through a single account. Clearing Member is allowed to have the positions of clients that are not NCM held and netted on a single account. All generic omnibus clearing accounts share one same collateral pool, which is recorded separately from the collateral posted by the Clearing Member to cover its own positions as well as from the collateral covering clients' segregated accounts.
- In case of default of the Clearing Member, NCM and other known clients using this account type are notified and are given a time period to request the transfer of positions to another Clearing Member. Such transfer can only take place if certain conditions apply, among which stands out the need to have already a clearing agreement with the new Clearing Member. Regarding collateral, its portability will only take place if all the positions of all generic omnibus accounts have been transferred within the time frame specified by OMIClear and if it has been shown the right to the claimed collateral. Otherwise, the collateral will remain available to close the positions of generic omnibus accounts that have not been transferred. Nevertheless, if at the end of the default process there is a surplus of collateral, it shall be distributed among the NCM and clients on a pro rata basis with regards to their margin exposure but capped to their margin requirement.

Since, according to its rules, OMIClear requires the configuration of separate clearing accounts for: i) clearing members proprietary positions and clients' positions and ii) for each NCM positions cleared by the clearing member, OMIClear developed a system where the segregation features of positions and collateral can be easily configured for each clearing account and linked collateral account. Therefore, the reports made available to the clearing staff of the CCP, the participants' users as well as to the national regulator (CMVM) provide great evidence and transparency on the records and treatment of positions and collateral for each account type.

It shall be highlighted that OMIClear is subject to an independent external audit on an annual basis that cover the compliance with the accounts (namely the segregation and portability features) imposed by EMIR regulation.

### **Key Consideration 3**

A CCP should structure its portability arrangements in a way that makes it highly likely that the positions and collateral of a defaulting participant's customers will be transferred to one or more other participants.

As thoroughly described in its rules (Instructions A05/2014 - Accounts and B18/2014 - Procedures in Case of Default) OMIClear provides all non-defaulting clients of clearing members the opportunity to activate the portability of its positions and collateral to a new clearing member. The chances of successful porting depend on the segregation model selected by the client and the extent to which the client has prearranged a backup clearing member or can arrange one quickly after the default (currently OMIClear's concedes clients with segregated accounts up to 3 business days to present a backup clearing agreement with an alternative clearing member). The positions and guarantees of clients who exercise their right of portability on time and present the new clearing agreement respecting the pre-defined deadlines shall see their positions and guarantees transferred and shall operate in the sphere of the new Clearing Member.

As previously mentioned in Principle 12 (Participant-default rules and procedures), as part of its default procedures testing plan OMIClear conducts on a regularly basis simulation tests including the closing out of positions held by a defaulting clearing member. In these simulations exercises special attention is provided to the portability features of each client clearing account type available in OMIClear and the results have been successful, providing the CCP and its participants confidence on the effectiveness and timely implementation of the default rules and procedures in place.

### **Key Consideration 4**

A CCP should disclose its rules, policies, and procedures relating to the segregation and portability of a participant's customers' positions and related collateral. In particular, the CCP should disclose whether customer collateral is protected on an individual or omnibus basis. In addition, a CCP should disclose any constraints, such as legal or operational constraints, that may impair its ability to segregate or port a participant's customers' positions and related collateral.

Recognizing the importance of providing detailed information to clearing members and its clients clarifying the legal implications associated with the segregation and portability conditions for each clearing account type, OMIClear:

- Outlines the differences of each segregation model adopted by the clearing member's client and different default management procedures carried out for each model in its

Instructions A05/2014 - Accounts and B18/2014 - Procedures in Case of Default made available on its website;

- When opening the registration account and connected clearing account and selecting the segregation model, requires both clearing members and clients to declare their awareness on the legal implications of the selected model and to sign the forms;
- Requires all participants that post collateral with the CCP (clearing members or clearing members' clients who have opted for segregated accounts) to sign a collateral agreement with OMIClear including the legal regime inherent to the collateral collected (title of transfer for cash and financial pledge for government bonds).

In addition to the abovementioned form of disclosure, OMIClear makes available on its website a detailed description of the accounts' structure and of the main legal implications of the different level of segregations (<https://www.omiclear.pt/en/accounts-structure>).

### Assessment of principle:

Observed
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### 3.15 Principle 15: General business risk

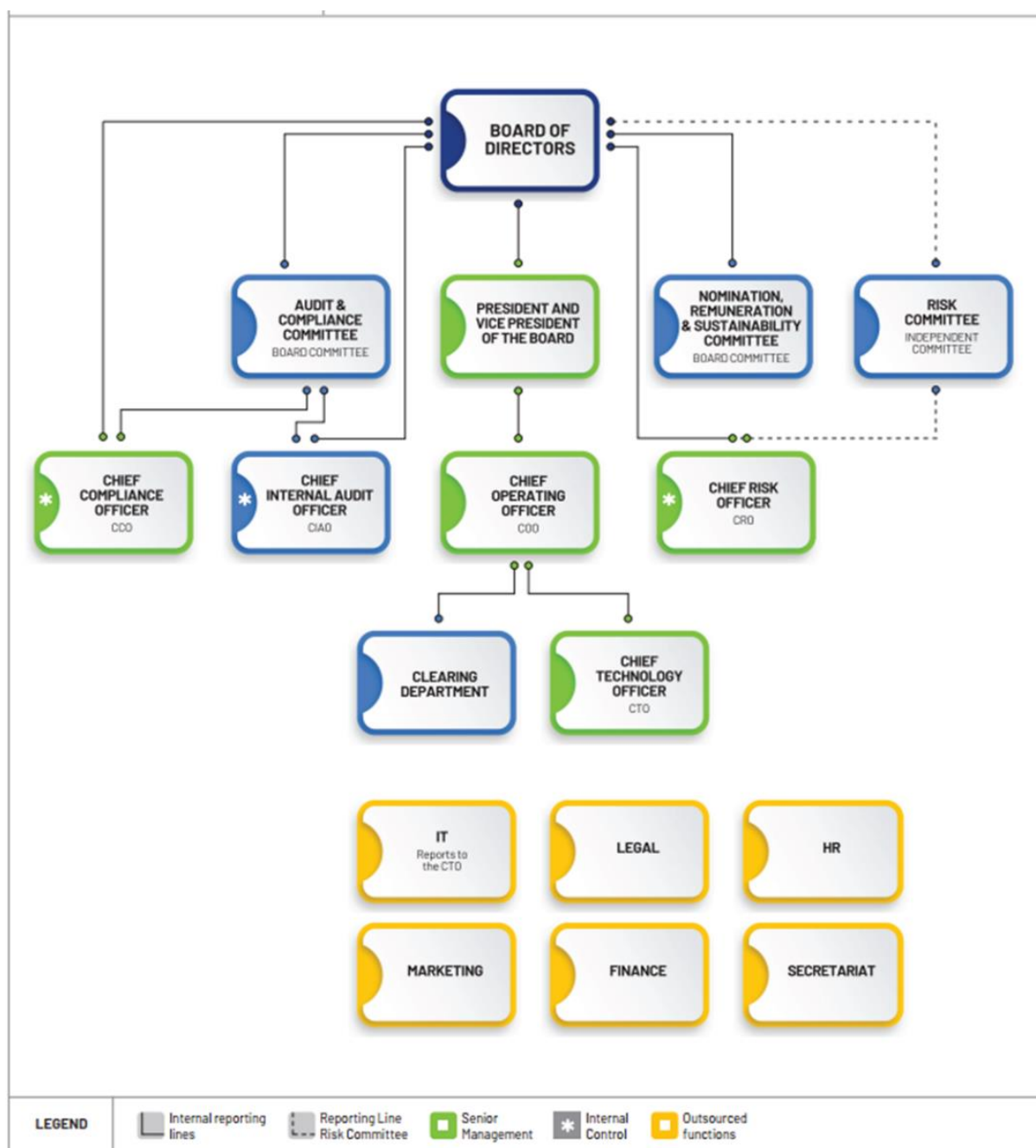
***An FMI should identify, monitor, and manage its general business risk and hold sufficient liquid net assets funded by equity to cover potential general business losses so that it can continue operations and services as a going concern if those losses materialise. Further, liquid net assets should at all times be sufficient to ensure a recovery or orderly wind-down of critical operations and services.***

#### Key Consideration 1

An FMI should have robust management and control systems to identify, monitor, and manage general business risks, including losses from poor execution of business strategy, negative cash flows, or unexpected and excessively large operating expenses.
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OMIClear identifies and monitors its business risks by considering the general business conditions which may negatively affect its financial stability by declining its revenues or by increasing its expenses, thus resulting in a loss that must be charged against its capital.

OMIClear's general risks such as legal, business, operational, information security management and credit risk are addressed in relevant internal policies which include the identification of the risk, the methodology used to measure it and the respective monitoring and controlling tools. Risks are monitored by the Risk, Internal Audit and Compliance departments which consist of three specific departments that report directly to the Board of Directors.



In its Business Risk policy OMIClear builds several case scenarios including potential income reductions (10%, 25% and 50% loss in variable fees due to a reduction of the cleared volume

as well as in other CCP's sources of income). The net results are considered for determining its capital requirements.

Furthermore, OMIClear measures and monitors general business risk by carrying out a monthly tracking at Board meetings of the detailed income statements analysing the results against the annual budget. At monthly Board meetings general market liquidity and OMIClear specific volumes are also tracked. Given that these economic and financial results are presented to the Board of Directors on a monthly basis if significant differences between intentions and reality take place additional measures will be contemplated and, if required, taken by the Board. Whenever structural changes are made to OMIClear's activities, the financial accounts are subject to a special revision and evaluation coordinated by the Board of Directors.

## Key Consideration 2

An FMI should hold liquid net assets funded by equity (such as common stock, disclosed reserves, or other retained earnings) so that it can continue operations and services as a going concern if it incurs general business losses. The amount of liquid net assets funded by equity an FMI should hold should be determined by its general business risk profile and the length of time required to achieve a recovery or orderly wind-down, as appropriate, of its critical operations and services if such action is taken.

OMIClear has a share capital of 7,5 million EUR, which complies with the minimum amount established by Article 16 of EMIR and had an equity capital of 13,2 million EUR as of December 31<sup>st</sup>, 2023. This amount far exceeds the amount required to bear the risks assumed by OMIClear, when evaluated against the criteria set in the RTS 152/2013.

OMIClear performs a thorough analysis that is well documented and revised on an annual basis (or ad hoc if required) for the determination of level of equity capital, namely by considering the following capital components:

- ➊ Capital requirements for Winding-Down or Restructuring;
- ➋ Capital requirements for Operational and Legal Risks;
- ➌ Capital requirement for Credit Risk;
- ➍ Capital requirement for Counterparty Credit Risk;
- ➎ Capital requirement for Market Risk;
- ➏ Capital requirement for Business Risk.

Regarding length of time required to achieve a recovery or orderly wind-down OMIClear's rulebook establishes a clear termination clause in order to allow a safe winding down process in a maximum of 2 months after the notification of the Board of Directors decision. This specific provision was extensively tested with members, with the following conclusions:

- The time span of 2 months was considered more than enough by several reasons including:
  - OMIClear clears a limited set of product lines;
  - Most of its operations are carried out in-house, and are lean and simple;

- The dimension of OMIClear members, being international players, is disproportionate compared to the market dimension, meaning that the market and its positions do not represent a credit or a market issue for most of these entities;
- Products are all local / regional products, meaning that there are no cross-border issues to be solved;
- OMIClear has in place, and in its rules, clear and proper mechanisms to close or hedge defaulting positions, including a last resort process – partial tear-up;
- Members considered that the CCP should not assume any type of standard procedure to close positions. Members should close them by themselves. OMIClear could, in the limit, promote some voluntary auctions;
- Regulatory back-up procedures are also established if after this notification period some positions remain open in the market.

### Key Consideration 3

An FMI should maintain a viable recovery or orderly wind-down plan and should hold sufficient liquid net assets funded by equity to implement this plan. At a minimum, an FMI should hold liquid net assets funded by equity equal to at least six months of current operating expenses. These assets are in addition to resources held to cover participant defaults or other risks covered under the financial resources principles. However, equity held under international risk-based capital standards can be included where relevant and appropriate to avoid duplicate capital requirements.

OMIClear has incorporated within the Rulebook some Recovery tools and a procedure for an orderly wind-down. Additionally, OMIClear has in place a Recovery Plan which includes the tools to be used in each of recovery plan scenarios.

OMIClear's Equity, held in liquid net assets, represents around 3 times the regulatory capital required by Article 16 of EMIR, which covers an orderly wind-down or restructuring of the activities over an appropriate time span and an adequate protection against credit, counterparty, market, operational, legal and business risks. Therefore, OMIClear, in compliance with the EMIR Regulation (EU) 648/2012, holds sufficient capital to conduct an orderly wind-down over a minimum of six months.

For further details please refer to Key Consideration 2.

### Key Consideration 4

Assets held to cover general business risk should be of high quality and sufficiently liquid in order to allow the FMI to meet its current and projected operating expenses under a range of scenarios, including in adverse market conditions.

OMIClear has a very conservative policy which focuses on the prompt liquidity of its cash investments (for both members' collateral and CCP own funds), with the Portuguese Central



Bank and/or commercial banks with a reduced risk level and in compliance with the collateralisation ratio defined by EMIR RTS. For further details on this topic please refer to Principle 16.

### Key Consideration 5

An FMI should maintain a viable plan for raising additional equity should its equity fall close to or below the amount needed. This plan should be approved by the board of directors and updated regularly.

When OMIClear is presented with an eventual situation where there is an insufficient presence of capital that needs to be replenished in compliance with EMIR and other applicable regulations, OMIClear expedites the following procedures, that also are enshrined in the Recovery Plan approved by the Board of Directors:

- a) The Board of Directors analyses the context in which such condition is verified;
- b) The Board of Directors makes a proposal to the General Assembly attending the particular situation that needs to be dealt with, also requesting its convening in order that such matter is resolved. Since OMIClear only has two shareholders, the meeting of the General Assembly could be done in a more expeditiously way than if it was in the case of a more diversified shareholder structure; and
- c) In pursuance to the matter in question, the shareholders decide whether the situation requires:
  - i. an increase of capital; and/or
  - ii. to make supplementary capital contributions; and/or
  - iii. to use retained earnings or reserves, always considering the terms under EMIR under which such circumstance should be decided, and to act in accordance with such regulation and any other applicable legislation.

According to the Recovery Plan, the amount that needs to be replenished by shareholders corresponds to the amount that would allow OMIClear equity capital / Capital Requirements ratio to become higher than the regulatory threshold of 110%.

### Assessment of principle:

Observed

### 3.16 Principle 16: Custody and investment risks

*An FMI should safeguard its own and its participants' assets and minimise the risk of loss on and delay in access to these assets. An FMI's investments should be in instruments with minimal credit, market, and liquidity risks.*

#### Key Consideration 1

An FMI should hold its own and its participants' assets at supervised and regulated entities that have robust accounting practices, safekeeping procedures, and internal controls that fully protect these assets.

OMIClear applies strict criteria and principles when selecting collateral custodians in order to protect its own and its participant's assets.

OMIClear's rules and OMIClear Investment Policy stipulate that, when the cash (both own funds and participants' cash collateral) is deposited in financial institutions other than in the Portuguese Central Bank, such entities shall comply on an ongoing basis with creditworthiness thresholds (based on an internal risk score assessment carried out by the Risk Department, according to pre-defined and clear quantitative and qualitative criteria laid down in OMIClear's Credit Risk Policy). OMIClear calls these eligible entities under the scope of its credit policy as "Qualified Credit Institutions".

Regarding the participants' financial instruments deposited as collateral OMIClear complies with the requirements of article 44 of EMIR RTS by maintaining secured arrangements with 1 Securities Settlement System: Interbolsa S.A. (a Central Securities Depository – CSD that is fully owned by Euronext Lisbon). The rules of this system establish provisions regarding the irrevocability and finality of transfer orders and deliveries of securities and payment under EU Directive 98/26/EC (Settlement Finality Directive), the full protection of the financial instruments. The self-assessment against the CPMI-IOSCO principles (in particular Principle 11) disclosed by this entity confirm that they have appropriate rules and procedures to help ensure the integrity of securities issues and minimise and manage the risks associated with the safekeeping and transfer of securities.

Before entering into contractual agreements with the CSDs and custodian banks OMIClear ensures that the provisions therein provide legal protection including provisions in case of default and segregation type of the accounts opened by OMIClear. In sum, the range of services must be provided fulfilling regulatory, legal and contractual requirements. Furthermore, the regular operations carried out by the clearing department with this CSD and Qualified Credit Institutions give OMIClear enough confidence and trustworthiness concerning the procedures and controls carried out by such counterparties.

It is worth mentioning that both OMIClear's and participant's assets are always protected, i.e. in the event of a participant's default, irrespective of the legal concept (financial pledge or fiduciary transfer). OMIClear has legal certainty regarding the home country jurisdiction of the

participant that posts collateral and of the location where the collateral is held, in connection with the Portuguese jurisdiction applying to OMIClear.

The following table provides a useful summary of the main features for each type of asset managed by OMIClear:

Asset Type	Ownership	Collateral Legal Regime	Custodian Entities	Custodian prudential procedures	Main Investment Policy features	Segregation Features
Cash	Own	n/a	Only Qualified Credit Institutions	<ul style="list-style-type: none"> <li>Subject to the supervision of ECB or Portuguese Central Bank</li> </ul>	<ul style="list-style-type: none"> <li>Full availability of funds to cover OMIClear's liquidity needs</li> <li>Collateralization ratio compliant with art. 45 of EMIR RTS</li> <li>Concentration Limits applied to Qualified Credit Institutions</li> </ul>	CCP vs. participants funds segregation assured with the Qualified Credit Institutions ( <i>Investment Policy</i> )
	Clients > OMIClear	Fiduciary Transfer				
Government Bonds	Own <sup>(1)</sup>	n/a	Only Securities Settlement Systems	<ul style="list-style-type: none"> <li>Subject to the supervision of Portuguese Securities Market Commission (Interbolsa)</li> </ul>	<ul style="list-style-type: none"> <li>Investments allowed only on securities that are also eligible as collateral</li> <li>Concentration Limits applied</li> <li>Positions in OMIClear's derivatives contracts only allowed for the purpose of hedging a portfolio of a defaulting clearing member</li> </ul>	OMIClear's vs. participants' securities segregation assured with the CSDs. Individual segregation provided when requested by the client ( <i>Instruction A06/2014 - Management and Evaluation of Guarantees</i> )
	Clients	Financial Pledge with availability of the financial instruments provided as a guarantee				

<sup>(1)</sup> Government bonds owned by OMIClear may result from the following: received as collateral by the Qualified Credit Institutions where it makes cash investments (eg: repo operations); own investments.

## Key Consideration 2

An FMI should have prompt access to its assets and the assets provided by participants, when required.

OMIClear ensures it has prompt access to its assets and has full availability of funds to cover its liquidity needs (hence minimizing liquidity risk) by:

- ☛ Maintaining custodian arrangements with supervised and regulated CSDs and Qualified Credit Institutions (with a low credit risk and which have in place prudential requirements that assure legal protection for the CCP and the assets invested and safe kept);
- ☛ Only accepting cash collateral in euros and not having own funds in any another currency, hence its cash investments are not exposed to any currency risk;
- ☛ Ensuring that the part of cash funds not held by means of demand deposits are invested through highly secured arrangements such as repo transactions which shall be overnight type or must include a clause with a short cancellation notice; investments above

OMIClear's liquidity needs in repo transactions or equivalent may be of the term type without an explicit formal cancellation notice but including the option of being terminated on any business day in the future by either party with a maximum 35 days' notice;

- ⊕ Carrying out strictly control over the value of the financial instruments delivered as collateral (both from its participants and from its custodian banks inherent to the repo transactions), applying prudential concentration limits and haircuts that enables OMIClear to convert the financial instruments into cash easily, rapidly and avoiding market risk;
- ⊕ Establishing in its investment policy that only own funds and up to 5% of cash collateral can be invested in government bonds (only the ones also accepted as collateral, meaning that entail a low market and credit risks) and subject to several concentration limits (on a assets portfolio level, bond issue share within the total portfolio etc) and remaining maturity limits;
- ⊕ Signing standard and trustworthy repo agreements (GMRA) with Qualified Credit Institutions, based on securities purchase/repurchase operations of type Delivery/Receive Versus Payment (DVP/RVP) and through centralised, integrated and robust settlement systems which are based on SWIFT infrastructure;
- ⊕ Signing highly secured agreements with CSDs for the safekeeping of the financial instruments, based on standard Delivery/Receive Free of Payment (DFP/RFP) and T2S timings.
- ⊕ Ensuring a prudent diversification by applying concentration limits (non-collateralization thresholds for cash investments and limits for each custodian bank).

All the above-mentioned requirements have been subject to the opinion of OMIClear's Risk Committee, approved by the Board of Directors and disclosed to the National Competent Authority (CMVM). Any material changes to the Investment Policy require appropriate Board of Directors and Risk Committee approval.

### Key Consideration 3

An FMI should evaluate and understand its exposures to its custodian banks, taking into account the full scope of its relationships with each.

For securities collateral OMIClear exclusively uses operators of Securities Settlement Systems which are under prudent regulation and supervision. Regarding the commercial banks for cash investments, OMIClear makes a comprehensive creditworthy assessment of each bank before accepting it as an eligible custodian institution (i.e. accepted as a "Qualified Credit Institution").

For the purpose of investments of own liquidity and received cash collateral OMIClear has established relationships with a variety of counterparts to avoid concentration risk and also taking into account wrong way risk. According to its Credit risk Policy, OMIClear takes into account its overall credit risk exposure to each individual counterparties aggregating the exposure arising from the possible different types of relationships maintained with the CCP (e.g.: clearing member, custodian bank, liquidity provider, etc.) and also taking into account possible interdependencies (e.g.: company group relationships). Credit exposure limits are

established to maintain the credit risk within acceptable parameters. Furthermore, consistent and ongoing reporting is carried out by the risk department in order to monitor these exposures and respective balances presented by each counterpart (total exposure versus credit threshold in place). Please also refer to Principle 4 (Credit Risk).

#### Key Consideration 4

An FMI's investment strategy should be consistent with its overall risk-management strategy and fully disclosed to its participants, and investments should be secured by, or be claims on, high-quality obligors. These investments should allow for quick liquidation with little, if any, adverse price effect.

Like already mentioned, OMIClear maintains an Investment Policy which has been approved by the Board of Directors and Risk Committee and disclosed to the National Competent Authority (CMVM). OMIClear performs an annual revision and any material changes require appropriate approval of the Board and Risk Committee. As clearly highlighted in the previous Key Consideration, OMIClear's investment strategy is designed to ensure that counterparty credit risk is preserved and, as fully as possible, protected from the risk of losses through the investment activity. Return on investment is of secondary importance, behind the security, capital preservation and liquidity objectives of OMIClear.

The Investment Policy outlines the objectives and general conditions of the treasury management of OMIClear and is publicly available in its website (excluding some specific criteria limiting the investment). Investment rules on participants' collateral and OMIClear's own funds are clearly defined and disclosed and have the primary goal of ensuring OMIClear's ability to satisfy payment obligations at all times. In order to provide a full protection of the assets provided, OMIClear's investment strategy focuses on implementing the principles laid down in articles 44 and 45 and Annex II of EMIR RTS (concerning "highly secured arrangements for the deposit of financial instruments", "highly secured arrangements maintaining cash" and "conditions applicable to highly liquid financial instruments") thus providing enough confidence to OMIClear on:

- a) its capacity of liquidating promptly its assets or assets provided by its participants or custodian banks (when invested in repo transactions or equivalent) with minimal adverse price effect;
- b) the mitigation of the risk of loss.

#### Assessment of principle:

Observed

### 3.17 Principle 17: Operational risk

***An FMI should identify the plausible sources of operational risk, both internal and external, and mitigate their impact through the use of appropriate systems, policies, procedures, and controls. Systems should be designed to ensure a high degree of security and operational reliability and should have adequate, scalable capacity. Business continuity management should aim for timely recovery of operations and fulfilment of the FMI's obligations, including in the event of a wide-scale or major disruption.***

#### Key Consideration 1

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An FMI should establish a robust operational risk-management framework with appropriate systems, policies, procedures, and controls to identify, monitor, and manage operational risks.

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OMIClear takes great care to mitigate risk and ensures that appropriate measures are taken to avoid, reduce or intentionally take on risk.

As a central counterparty clearing house authorised under EMIR OMIClear has a sound framework for the comprehensive management of all material risks. OMIClear has established documented policies, procedures and systems to identify monitor and manage such risks. The Risk Management Framework is coordinated by OMIClear's Chief Risk Officer reporting to the OMIClear's Board of Directors. Adequate monitoring is ensured through the Monthly Risk Assessment Report to the OMIClear's Board of Directors and a yearly operational risk review.

OMIClear's Risk Management Framework differentiates between five major risk types that are managed and controlled with distinct methods. These risk types are credit risk, operational risk, liquidity risk, market risk and business risk.

Regarding the operational risk, it is defined as the risk of potential losses resulting from poor functioning of information systems, non-compliance with applicable regulations and laws, inadequate qualitative and quantitate human resources, mistakes or non-compliance by external services providers, failure in the processing of operations, fraud and inoperability of the physical infrastructure.

The framework to address operational risk is defined in the Operational Risk Policy, approved by the Board of Directors, which establishes:

- Roles and responsibilities in the development, implementation and monitoring of the operational risk management framework;
- Operational risks to which OMIClear is exposed;
- Procedures in place to assess the level of exposure to operational risks;
- Risk limit considered as acceptable by the company according with OMIClear's business objectives;
- Procedures to review and report operational risk to OMIClear's Board of Directors.



OMIClear monitors, on a regular basis, the company's exposure to operational risks and reports the results to the Board of Directors, according with the following procedures:

- Definition of key risk indicators (KRI's) in the relevant organizational units for OMIClear, which are monitored on a monthly basis and reported by the Chief Risk Officer to the Board of Directors;
- Annual assessment of the operational risk exposure carried out on the basis of the operational risk policy, and whose results are reported to the Board of Directors.

By monitoring on a regular basis the KRI's OMIClear can follow a set of risk indicators which are relevant to identify situations of potential risk and to adopt strategies that enable to mitigate these sources of higher risk.

The annual assessment of the operational risk exposure is conducted at least once a year, and the results of the assessment are reported to OMIClear's Board of Directors.

Therefore, OMIClear considers its systems, policies, processes and controls are duly aligned considering relevant international, national and industry-level operational risk management standards.

## **Key Consideration 2**

An FMI's board of directors should clearly define the roles and responsibilities for addressing operational risk and should endorse the FMI's operational risk management framework. Systems, operational policies, procedures, and controls should be reviewed, audited, and tested periodically and after significant changes.

The OMIClear's Board of Directors is responsible for the company's Risk Management Framework and ensures that the Risk Strategy is integrated into the business activities throughout OMIClear entirely and that adequate measures are in place to implement the strategies, policies and procedures.

To ensure the proper implementation of the system for assessing and managing operational risks, OMIClear defines, clearly and concisely, roles and responsibilities in the development, implementation and monitoring of the operational risk management framework:

Board of Directors:

- Ensure that OMIClear adopts, in all circumstances, a stringent corporate culture for managing the risks to which it is exposed, including the operational risks;
- Review and approve the operational risk policy;
- Review and approve OMIClear's acceptable risk levels;
- Approve the implementation of risk control and mitigation measures contained in the operational risk assessment reports.

Risk Department:

- Analyse and define the key risk indicators (KRI's);

- Ensure the implementation of the operational risk policy;
- Prepare the operational risk assessments reports for information of the Board of Directors;
- Recommendation of strategies for handling the risk sources mentioned in the risk assessment reports.

#### Compliance Department:

- Ensure that the operational risk policy complies with the relevant legal requirements;
- Support the others responsible for the operational risk management framework in the implementation of the operational risk policy, namely in the aspects that can compromise the compliance with the legal obligations applicable to OMIClear;
- Ensure the compliance with the principles defined in the operational risk policy, in particular those that can influence the non-compliance risk.

#### External Auditors:

- Carry out external and independent audits to the operational risk management framework.

OMIClear carries out regular reviews to their internal procedures, with the aim of finding limitations and opportunities for improvement taking in consideration the needs of the organization and the development of the business.

The systems, operational policies, procedures, and controls are also subject to internal audits which are approved by the Board of Directors through the annual audit plan. Every year is approved an internal audit plan where several areas of activity and corresponding processes and procedures related to those areas are audited, in an independent and objective way, by the internal control department. The purpose of these audit plans is to audit, on an ongoing basis, processes which are essential to the development of OMIClear activity.

The operational risk management framework is also subject to regular external audits conducted by an external auditor.

### Key Consideration 3

An FMI should have clearly defined operational reliability objectives and should have policies in place that are designed to achieve those objectives.

OMIClear designs the clearing systems and platforms to be reliable and secure as well as capable of processing the information necessary for OMIClear to perform its activities and operations.

Furthermore, OMIClear strives to provide products and services with utmost reliability and thus gives the highest importance to the resilience of its business to safeguard it against incidents. OMIClear aims to continue to operate under adverse conditions or in the face of unexpected events or disasters.

Therefore, key functions which are indispensable for the critical daily operations in view of the above objectives are defined as critical and must be resumed within a Recovery Time Objective (RTO) of 2 hours following a disruptive incident, crisis or disaster. The RTO is the time period following a disruptive incident within which products, services or activities must be resumed or resources must be recovered.

Consequently, OMIClear implements and maintains effective and efficient business continuity plans designed to minimise the impact of a disruptive incident. Also, OMIClear has implemented formal procedures for the management of security and cybersecurity incidents. Thereby OMIClear adopts industry standard best practices in line with its needs and regulatory requirements.

Business continuity plans and cybersecurity incident scenarios are tested regularly in the most realistic way to ensure their effectiveness and viability and in order to provide assurance that a real incident could be successfully managed.

Finally, external relationships between OMIClear and its critical service providers are ensured by contracts signed between the entities, ensuring minimum levels of service to be provided by the supplier, and also the procedures applicable for activating them in a disruptive incident.

#### **Key Consideration 4**

An FMI should ensure that it has scalable capacity adequate to handle increasing stress volumes and to achieve its service-level objectives.

Information technology systems used by OMIClear are secure and have an availability rate of 100 per cent over the last 12 months, thus proving their reliability. The systems can process the necessary information to perform the clearing activities and operations in a safe and efficient manner. Capacity testing has been conducted to ensure that it is able to handle stressed market conditions without impacting the normal operational deadlines, namely by observing its response to a significant increase in transaction volumes over a diversified mix of products.

System documentation on the information technology architecture is available and redundant system architecture with failover capabilities is setup to ensure OMIClear's operations are resilient and scalable. Additionally, regularly tested business continuity measures are in place. To assess the need for introducing new technology including clear reversion plans, OMIClear monitors system performance constantly. Reports of this monitoring are provided to the management regularly.

Stringent testing is performed for each change to the system and changes are simulated in a separate technical environment including, when applicable, the involvement of any affected parties.

The information technology systems and the information security framework are subject to annual independent audits to ensure that its information technology systems are compliant

with the EMIR regulation, covering operational processes, security organization and security framework.

### **Key Consideration 5**

An FMI should have comprehensive physical and information security policies that address all potential vulnerabilities and threats.

With the purpose of reducing the risk of a failure related to information security and to ensure the confidentiality, availability and integrity of the information assets, OMIClear have implemented internal procedures within an Information Security Management System (ISMS). OMIClear's ISMS is based on the standard ISO/IEC 27001, since it is one of the best-known standards providing requirements for an information security management system.

The ISMS implementation includes all people, processes and systems of OMIClear and it is designed to create and maintain a set of management tools that allows OMIClear to operate its markets and services according to the industry best practices and regulations. It also promotes confidence in the users of OMIClear services and reduces the probability of incidents and potential damage caused by them.

With the implementation of the ISMS, OMIClear is equipped with a range of internal procedures that allows the efficient management of risks related with information security, namely on the following areas covered by ISO 27001:

- Information Security Organization;
- Human Resources Security;
- Asset Management;
- Access Controls;
- Cryptography Controls;
- Physical and Environmental Security;
- Operations Security;
- Communications Security;
- Information Systems Acquisition, Development and Maintenance;
- Relationship with service providers;
- Information Security Incident Management;
- Compliance; and
- Business Continuity.

In order to establish the concepts and guidelines of OMIClear's ISMS, an Information Security Policy was defined and formally approved by the Board of Directors. This policy applies to all OMIClear's employees, service providers and other partners, as well as all assets and information systems, operational, inactive or in development, whether lodged in OMIClear's equipment and facilities or from outsourcing suppliers.

## Key Consideration 6

An FMI should have a business continuity plan that addresses events posing a significant risk of disrupting operations, including events that could cause a wide-scale or major disruption. The plan should incorporate the use of a secondary site and should be designed to ensure that critical information technology (IT) systems can resume operations within two hours following disruptive events. The plan should be designed to enable the FMI to complete settlement by the end of the day of the disruption, even in case of extreme circumstances. The FMI should regularly test these arrangements.

OMIClear assumes, as strategic objective, to ensure an adequate response to any incident or disaster situation that affects people, material assets, information and/or business processes that depends on their activities. In this sense, OMIClear have implemented a Business Continuity Management System (BCMS) based on ISO standard 22301, guaranteeing the recovery of its critical functions within the defined Recovery Time Objective (**2 hours**) and respecting the legal requirements that OMIClear is obliged within the framework of its activity on the market. The Business Continuity Management System is integrated into OMIClear's overall risk management philosophy.

The Business Impact Analysis defines the methodology and process for assessing the impacts of possible disrupting OMIClear activities, also determining the continuity and recovery priorities, objectives and targets.

The Business Continuity Strategy defines how OMIClear ensures that all conditions for the resumption of business activities in case of disaster or other disruptive incident are met. It forms the basis for preparing the Business Continuity and Recovery Plans.

The Business Continuity Plan defines precisely how OMIClear manages incidents in the case of a disaster or other disruptive incident, and how it will recover its activities within set deadlines. The objective of the Plan is to keep the damage of a disruptive incident at an acceptable level, in order to not compromised OMIClear's activity in the market.

Communication plans with key external stakeholders and authorities are well defined to each stage of the response and recovery process within the Business Continuity and Activity Recovery Plans and Incident and Cyberattack Management Procedures.

When a disaster situation is activated in OMIClear's main site, all the activities and tasks deemed critical to the organisation are moved to a secondary site, available at all times, fully equipped to continue the activity within the time set out for recovery. For reasons of the nature of disaster scenarios considered, the secondary site chosen by OMIClear is in a geographical area different from the main site and has a "hot" equipment level, i.e., it is equipped with a permanent structure to house the employees necessary to recover all critical tasks, and equipped with furniture and technology equipment, hardware and software, necessary to carry out OMIClear's critical activities. Although located in a geographical area away from the main site, the distance between the two is sufficient to allow the timeliness of recovery within the 2-hour period.

In a situation of a disaster affecting the main datacenter which contains OMIClear's clearing platform, the activity will continue in an alternative datacenter located in a geographical area away from the main datacenter. The installed version is maintained as to be exactly the same as in the main datacenter being the database synchronized in real time. The synchronization model is asynchronous except for those concerning company transactions. These follow a synchronous model which allows guaranteeing the recovery of transactions that were in progress at the time of the interruption.

The procedures defined in the BCMS are reviewed at least on an annual basis. The business continuity manager is responsible for the operational revision and maintenance of the BCMS and for keeping the Board informed about the main changes and updates. OMIClear ensures the on-going appropriateness of its BCMS to the reality of the organisation, maintaining regular tests plan to all the principles defined in its Business Continuity Policy. The BCMS and respective Activity Recovery Plans are tested at regular intervals and after significant modifications in the business or to the related systems. The tests involve scenarios of large-scale disasters and switchovers between main and secondary sites and include involvement of clearing members, national supervisors and external stakeholders defined within the scope of this Policy.

Additionally, OMIClear performs semi-annually tests with Banco de Portugal given the importance of its link for the settlement of credits/debits to Clearing Members.

### Key Consideration 7

An FMI should identify, monitor, and manage the risks that key participants, other FMIs, and service and utility providers might pose to its operations. In addition, an FMI should identify, monitor, and manage the risks its operations might pose to other FMIs.

OMIClear has implemented a Business Continuity Plan which contains a requirement to take into account external links and interdependencies within the financial infrastructure and critical functions or services which have been outsourced to third-party providers and for all of them OMIClear has defined contingency procedures in case of disruption of the regular service.

Additionally, OMIClear involves external service providers and relevant institutions in the financial infrastructure with which interdependencies have been identified in the business continuity plans in the testing full exercises.

Moreover, OMIClear regularly assesses the risks posed to the company by external service providers and subjects them to regular monitoring and service evaluation.

Finally, CCP members are asked to participate in the annual default simulation of a clearing member to ensure the procedures are known and members would be able to support the process in a real event.

### Assessment of principle:

Observed



### 3.18 Principle 18: Access and participation requirements

*An FMI should have objective, risk-based, and publicly disclosed criteria for participation, which permit fair and open access.*

#### Key Consideration 1

An FMI should allow for fair and open access to its services, including by direct and, where relevant, indirect participants and other FMIs, based on reasonable risk related participation requirements.

OMIClear provides open and fair access to its services to all participants, with no limits other than risk.

In this context, OMIClear has established clear and transparent admission criteria per clearing category. The admission requirements are set forth in the OMIClear's Rulebook and in the Instruction B02/2014 – Requirements for Clearing Members.

OMIClear's participation requirements are non-discriminatory, objective and do not limit access on grounds other than risk (e.g. sufficient liable equity capital, compliance with human and technical requirements, verification of the legal validity and enforceability of the Clearing Conditions, etc.). To ensure that this purpose is met, OMIClear assesses its admission requirements continuously.

OMIClear requires Clearing Members to provide evidence of sufficient financial resources and operational capacity to meet their obligations and minimise the risk towards the central counterparty.

OMIClear uses a risk-based approach to determine the level of financial resources requirements that a Clearing Member needs to prove:

- Minimum liable equity capital requirements are defined and depend on the category of clearing membership the new member applies for;
- If Clearing Members have insufficient liable equity capital for a clearing license, OMIClear may determine that the shortfall may be made up by collateral in cash and/or securities;
- Clearing Members must contribute to the Clearing Fund whereas the contribution is determined as the maximum amount out of the minimum requirement of each Clearing Member and the requirement based on the risk exposure of that member.

Clearing Members are required to deposit the higher of the following amounts:

- A minimum amount of EUR 150.000; or
- An amount based on the member's initial margin requirement.

OMIClear also assesses the participants' operational capability. Members must provide proof of the technical and functional connection, the use of appropriate technical equipment (back-office facilities) and sufficiently qualified back-office personnel.

OMIClear also assesses all entities that participate or are willing to participate in OMIClear's services that might induce or present a risk of enabling money laundering and terrorist financing activities. The following circumstances shall be considered: *i)* Whether the entity concerned is established in the EU and is subject to specific legislation related to money laundering and terrorist financing (e.g. Directive (EU) 2015/849 of the European Parliament and of the Council of 20 of May 2015 on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing, amending EMIR and repealing Directive 2005/60/EC of the European Parliament and of the Council and Commission Directive 2006/70/EC); *ii)* Whether the entity concerned is established in a high-risk third country, referred in the list of third-country jurisdictions which have strategic deficiencies in their anti-money laundering and countering the financing of terrorism regimes that pose significant threats to the financial system of the European Union laid down in the Annex to the Commission Delegated Regulation (EU) 2016/1675 of 14 July 2016 (which will not be common, due to the legal requirements imposed on the type of legal persons eligible to be participants of OMIClear); *iii)* Whether restrictive measures imposed on countries and persons concern the entity in question.

OMIClear has established a procedure to ensure that the information provided by Clearing Members are update and that they remain compliant with the participation requirements set out by OMIClear.

## Key Consideration 2

An FMI's participation requirements should be justified in terms of the safety and efficiency of the FMI and the markets it serves, be tailored to and commensurate with the FMI's specific risks, and be publicly disclosed. Subject to maintaining acceptable risk control standards, an FMI should endeavour to set requirements that have the least-restrictive impact on access that circumstances permit.

The scope of the membership requirements contains a set of quantitative and qualitative criteria, with the aim of ensuring acceptable credit quality, indicating the financial and operational strength of Clearing Members at the time of admission and ongoing during their membership.

The admission requirements can be summarised as follows:

- Participate in the TARGET payment system or enter into a Financial Settlement Agreement with a Financial Settlement Agent;
- Have at their disposal suitable human resources to perform the functions as Clearing Member;
- Have at their disposal technical and operational resources appropriate to perform the functions as Clearing Member;

- Have entered into a Clearing Member Admission Agreement with OMIClear;
- Have signed the Financial Guarantee Agreement;
- Have a minimum level of equity capital;
- Have an acceptable credit quality (initial and ongoing credit risk assessment);
- Have deposited collateral to cover the contribution to the Clearing Fund.

OMIClear offers two different categories of clearing membership:

- General Clearing; and
- Direct Clearing.

To ensure that Clearing Members that clear transactions on behalf of their clients have necessary additional financial resources, different minimum equity capital is required per clearing membership.

Regarding the General Clearing membership there is an additional requirement which is to admit firms which are appropriately licensed in their local jurisdiction.

### **Key Consideration 3**

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An FMI should monitor compliance with its participation requirements on an ongoing basis and have clearly defined and publicly disclosed procedures for facilitating the suspension and orderly exit of a participant that breaches, or no longer meets, the participation requirements.

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According to the Clearing Conditions, Clearing Members are obliged to provide evidence of compliance with the prerequisites for a clearing license. As part of each Clearing Member admission process it is ensured that all admission requirements are fulfilled. In order to also ensure the application of the admission criteria on an ongoing basis, the information is regularly updated. This may include due diligence questionnaires, business continuity tests, tests to the systems and mechanisms of back-up, and technical audits to the technological infrastructure.

OMIClear monitors the compliance of operational procedures and the adequacy of back-office staff of Clearing Members with the operational minimum standards established by its admission criteria.

More specifically, compliance of Clearing Members with financial resource requirements is monitored on a regular basis to obtain evidence of the level of their liable equity capital at admission and at least once a year. All Clearing Members shall submit proof of liable equity capital within 20 clearing days following the approval of the competent Board of the annual audited financial statements.

There is also a minimum contribution for the Clearing Fund defined for admission which is complemented with a dynamic component that ensures scaling of the Clearing Fund contribution to represent the risk of the individual Clearing Member.

The overall risk exposure of the single Clearing Member towards the clearing house is calculated daily. The Clearing Fund requirement is newly determined at the end of each calendar month or ad-hoc, if required.

According to the Clearing Conditions OMIClear is entitled to request further information and evidence concerning any of the admission requirements referred above.

The Clearing Conditions give OMIClear the right to suspend and/or terminate a license and its business relationship with that member in case the admission requirements are no longer fulfilled.

OMIClear may adopt, in such case, procedures to manage the orderly suspension or exit of the member, as foreseen in article 69 of its Rulebook, applicable ex vi article 71/6, inter alia:

- a. Forbid a Participant from opening or registering transactions and Positions, from assuming additional responsibilities, and increasing its exposure to risk;
- b. Determine the reduction of exposure of a Participant to risk, by closing or opening new Positions;
- c. Prevent the management of Positions by a Participant, namely a Clearing Member, thereby managing them directly, including their total close-out;
- d. Close Positions or responsibilities borne by a Participant, in terms of both cases of default of the Participant and when it is necessary or convenient to protect the proper functioning of Services, in particular to ensure the closing of Positions of a defaulting Participant;
- e. Replace the physical settlement of Positions with an exclusively financial settlement, and change the procedures to be adopted in the settlement of Positions, in particular by having in consideration the operational specificities of the notification process in the Service on Natural Gas Derivatives Contracts;
- f. Establish or define reference prices different from those established in OMIClear Rules or in Trading Rules;
- g. Retain the payment of financial settlements due;
- h. Take any other measure necessary to protect the integrity, proper functioning, security and transparency of Services or markets covered by OMIClear services.

#### **Assessment of principle:**

Observed
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### 3.19 Principle 19: Tiered participation arrangements

*An FMI should identify, monitor, and manage the material risks to the FMI arising from tiered participation arrangements.*

#### Key Consideration 1

An FMI should ensure that its rules, procedures, and agreements allow it to gather basic information about indirect participation in order to identify, monitor, and manage any material risks to the FMI arising from such tiered participation arrangements.

When responding to this principle, Registration Agents that are not Clearing Members (hereafter NCM – Non-Clearing Members) have been deemed to be indirect participants whereas Clearing Members have been deemed to be direct participants.

A NCM is an Individual, legal person, entity or institution that acts through a Clearing Member and subject to the requirements prescribed in OMIClear rules, whose Trades, the Positions resulting from these Trades, Margins and Collateral are registered in an Individual Segregated, or Omnibus Segregated or General Omnibus clearing accounts, as specified.

The NCM must always have a clearing agreement with a Clearing Member (CM) which takes the responsibility for it and their contractual relationship is subject to specific requirements established in OMIClear's clearing agreement template, which includes the rights and obligations of the NCM and CM before OMIClear, and between them and the acceptance of OMIClear's rules and the applicable law (Portuguese). The forms concerning the opening of registration and clearing accounts specifies the collateral segregation regime of the account and requires a declaration of both NCM and CM that they acknowledge of the risk and operational implications of each account type.

As a result of the above-mentioned clearing agreement and forms OMIClear configures the accounts in its clearing system accordingly. The monitoring, management and risk control of the positions registered on such accounts are integrated in the regular monitoring and control of all accounts.

OMIClear identifies the following material risks regarding indirect participation: (i) concentration risk and (ii) a sharply increase of positions by an individual client.

These risks are mitigated with: (i) additional margins for large positions, (ii) daily operational limits for Clients with Individual/Omnibus Segregated clearing accounts, (iii) the possibility of the CM imposing a daily operational limit to its Clients higher than the one required by OMIClear, (iv) the possibility of the CM or the CCP imposing to NCM limits to its positions or to its exposure and (v) measuring stress test risks at NCM level.

## Key Consideration 2

An FMI should identify material dependencies between direct and indirect participants that might affect the FMI.

OMIClear controls on a close to real time basis the proportion of activity and risk of indirect or direct participant through its clearing system (MiClear).

OMIClear manages Own, Individual Segregated, Omnibus Segregated and General Omnibus clearing accounts and the concentrated positions on these.

Direct and indirect dependencies are considered with regard to the identification of each members' group risk exposure. Therefore, indirect participants will implicitly be part of the whole exposure of a clearing member or the respective identified parent group.

## Key Consideration 3

An FMI should identify indirect participants responsible for a significant proportion of transactions processed by the FMI and indirect participants whose transaction volumes or values are large relative to the capacity of the direct participants through which they access the FMI in order to manage the risks arising from these transactions.

OMIClear monitors on a close to real time basis NCM's activity, positions, required margins and collateral at account level. Additionally, on a daily basis, OMIClear analyses CMs' exposures compared with the respective exposure limit and, for the CMs which exposure is close to the exposure limit, OMIClear analyses also the activity of the different accounts that make up the total risk of those Clearing Members.

## Key Consideration 4

An FMI should regularly review risks arising from tiered participation arrangements and should take mitigating action when appropriate.

OMIClear undertakes a total review of its risk management model at least annually.

## Assessment of principle:

Observed



### 3.20 Principle 20: FMI links

***An FMI that establishes a link with one or more FMIs should identify, monitor, and manage link-related risks.***

#### Key Consideration 1

Before entering into a link arrangement and on an ongoing basis once the link is established, an FMI should identify, monitor, and manage all potential sources of risk arising from the link arrangement. Link arrangements should be designed such that each FMI is able to observe the other principles in this report.

OMIClear has currently in place links with:

- ⊕ Central Securities Depositories (CSD) – Interbolsa S.A.;
- ⊕ Trade Repositories (TR) - DTCC Derivatives Repository Ltd;
- ⊕ European payment system TARGET through an agreement with the National Portuguese Central Bank (Banco de Portugal).

There are no links with any other central counterparty for the moment and it is not foreseen for a near future.

In general terms, OMIClear has processes in place to evaluate the risks arising from a link established with a FMI by performing a comprehensive analysis of the Terms and Conditions of each arrangement from credit, legal and operational risk perspectives. Such analysis (involving not only the legal, but also the risk and clearing departments and finally subject to the Board's approval) is performed and monitored on an ongoing basis.

The contractual agreements shall be well founded including clear provisions related to the duties and liabilities of each party, termination clauses in case of default, resignation clauses, governing law, communication channels agreed, information obligations between the parties, confidentiality terms, and other specific provisions deemed relevant for each activity carried out with the FMI.

Regarding the technical and operational features, performance tests shall be successfully completed before the final implementation into the production environment. The quality, reliability and continuous availability of the FMI's system as well as the client technical support are also important aspects taken into account by OMIClear when assessing its global risk exposure before the linked FMI.

#### Links with Central Securities Depositories (CSDs)

OMIClear has signed an agreement with a domestic CSD which only provides services to Portuguese securities (Interbolsa, S.A.). All linked CSDs are licensed and supervised by Financial Supervisory Authorities and/or Central Banks. Also, all linked CSDs are located within the EEA, which ensures that the CSDs' activities are governed by local laws which have implemented relevant EU legislation and that the CSDs are obliged to comply with international

standards and recommendations for securities settlement systems. The relevant legal frameworks that form the legal basis for the links are local laws (which have implemented EU legislation) including international standards and participant agreements. Interbolsa migrated to Target2-Securities (T2S) in March 2016. OMIClear has opted for an indirect connection to T2S by using the infrastructure and services provided by such CSD (ICP – Indirect Connection Participation). An ICP does not enter into a contractual relationship with T2S network service but only with the CSD.

OMIClear monitors if the terms and conditions and operating procedures of the CSD ensure protection of the assets held including when applicable the record of securities in segregated accounts with different tax treatment (when appropriate) and implement appropriate accounting principles.

Regarding the repo transactions, in order to mitigate credit risk OMIClear makes sure that the CSD system involved accommodates operations of Delivery/Receive Versus Payment (DVP/RVP) type, i.e. the cash payment and securities delivery are carried out simultaneously. It is worth mentioning that OMIClear performs on monthly basis reconciliations between the statements provided by the CSD and its own data.

From an operational risk perspective OMIClear investigates if the CSD system ensures a good and efficient system for management of the physical deliveries of securities and cash payments. Before starting to operate with the CSD, the clearing department staff, in coordination with the IT department, carries out test scenarios in the test environment provided by the CSD to check if the physical deliveries and repo transactions are completed successfully. The same principle applies when any modification to the system is planned to be implemented in the production environment.

#### Links with Trade Repositories (TR)

OMIClear is linked to the trade repository DTCC Derivatives Repository Ltd (DDRL) in order to fulfil the requirements stipulated in Article 9 EMIR to report all derivatives transaction. The link to the European trade repository DDRL is properly set up and does not pose any material risk to OMIClear. DDRL is located in London, is regulated by the UK Financial Services Authority (FSA) and offers its services under England and Wales law. On 14<sup>th</sup> of November 2013 the European Securities and Markets Authority (ESMA) registered DDRL as Trade Repository in accordance with Article 55 of the European Market Infrastructure Regulation (EMIR).

#### Links with TARGET Eurosystem payment system

TARGET which stands for the Trans-European Automated Real-time Gross settlement Express Transfer system, is the real-time gross settlement (RTGS) system for the euro. The T2 (previously called 'TARGET2') is a real-time gross settlement (RTGS) system owned and operated by the Eurosystem, which focus on a comprehensive risk management framework that is disclosed in ECB website. Central banks, commercial banks and Central Counterparties

can submit payment orders in euro to T2, where they are processed and settled in central bank money, i.e. money held in an account with a central bank.

OMIClear has been assuming two roles in T2 since 2009: Direct Participant and Ancillary System.

### Key Consideration 2

A link should have a well-founded legal basis, in all relevant jurisdictions, that supports its design and provides adequate protection to the FMIs involved in the link.

As outlined in Principle 1 OMIClear has a legal basis providing a high degree of certainty for each aspect of its activities and appropriate protection for the parties involved.

All the links established by OMIClear and identified in the previous Key Consideration are subject to strict European supervision and regulation, which by itself already provide a high confidence regarding the respective legal basis for the relationship between OMIClear and the FMI. Notwithstanding, before entering in any agreement, even with FMIs with such particular characteristics, OMIClear's Board always request the due diligence and legal opinion from the legal department. This legal process shall include an assessment of the applicable legal framework governing the jurisdiction. All the above-mentioned links are governed by the respective local law (some of them by transposing the EU legislation) and the Terms and Conditions of the respective FMI, in particular:

- Links with CSD:
  - Interbolsa S.A. – Portuguese law;
- Link with TR:
  - DTCC Derivatives Repository Ltd - England and Wales law;
- Link with TARGET:
  - Banco de Portugal - Portuguese law.

### Key Consideration 7

Before entering into a link with another CCP, a CCP should identify and manage the potential spill-over effects from the default of the linked CCP. If a link has three or more CCPs, each CCP should identify, assess, and manage the risks of the collective link arrangement.

Not applicable.

### Key Consideration 8

Each CCP in a CCP link arrangement should be able to cover, at least on a daily basis, its current and potential future exposures to the linked CCP and its participants, if any, fully with a high degree of confidence without reducing the CCP's ability to fulfil its obligations to its own participants at any time.

Not applicable.

## Assessment of principle:

Observed
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### 3.21 Principle 21: Efficiency and effectiveness

*An FMI should be efficient and effective in meeting the requirements of its participants and the markets it serves.*

#### Key Consideration 1

An FMI should be designed to meet the needs of its participants and the markets it serves, in particular, with regard to choice of a clearing and settlement arrangement; operating structure; scope of products cleared, settled, or recorded; and use of technology and procedures.
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OMIClear consults with market participants on a regular basis to ensure that the service provided best fit the market needs. This is achieved by maintaining at least 2 times a year meetings with the Clearing and Settlement (CSC) Committee – CSC - composed by the representatives of Clearing Members and clients of Clearing Members (Registration Agents in OMIClear terminology) where regulatory information, risk management changes, enhancement on the clearing and settlement service, new system releases and/ or new services are presented or discussed.

For historical and organizational reasons, CSC meetings are usually performed in coordination with the Trading and Products Committee of OMIP Derivatives Market which is very useful for obtaining the different perspective of the business: front-office and back-office.

OMIClear senior representatives, COO and Head of Clearing are formal members of MIBGAS market participants committee (“Comité de Agentes”) and depending on the topics also attend as presenters at this MIBGAS regular committee.

Therefore, OMIClear has established cooperation channels with their connected markets (OMIP, MIBGAS and MIBGAS Derivatives) to be able to interact with market participants on the relevant topics.

The regular interaction with the Risk Committee (including persons with high expertise from both the energy industry and the banking) is also an important tool, not only to discuss the risk management framework and to continuously fine tune the CCP’s service on a risk perspective, but also to get the feedback from other market experiences and practices and analyse the main concerns from the industry/banking regarding the CCPs service and activity.

The feedback from these Committees, as well as the information received from the ongoing bilateral meetings with its members and potential members, helps OMIClear to plan and design effective and efficient clearing and settlement solutions, operating structure, rules and procedures, engaging the most expertise staff (which can combine teams from several

departments: Marketing & Development, Risk, Clearing, Information System, Legal & Compliance and Internal Audit departments).

Additionally on the regular meetings of OMIClear's Executive Board and Board of Directors high attention is dedicated on the good performance of the core functions of the CCP's activity, which shall rely on the stability of its stakeholders, in particular clearing members, on a robust risk management framework and on a modern and client-focused technology. An open customized clearing platform (MiClear) owned by OMIClear consist of a cost-efficient technology with great flexibility to accommodate the continuous changes on the market players' needs, new regulation requirements and enhancements.

The organisational structure of OMIClear also incorporates an Internal Audit department which also plays a crucial role for the achievement of the effectiveness and efficiency of OMIClear's functions. The roles and responsibilities of this department include an inventory of the internal procedures carried by each OMIClear's department, the identification of potential operational risks, the definition of risk control metrics and of corrective and preventive measures to mitigate the risks and the proposal of solutions aiming to promote the efficiency and effectiveness of the procedures carried out by each department.

It is also worth mentioning that OMIClear provides a high-quality level client support, which is founded on strong relationships through deep problem understanding, ensuring timely resolution or escalation, communicating promptly on progress, and handling customers with a consummately professional attitude. The Marketing & Development department performs regular members' on-site visits to obtain in-depth information concerning clients' satisfaction levels and consequently to work towards the common goal of achieving de clients' objectives and meeting their needs.

## Key Consideration 2

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An FMI should have clearly defined goals and objectives that are measurable and achievable, such as in the areas of minimum service levels, risk-management expectations, and business priorities.

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OMIClear's main objectives in terms of effectiveness is to fulfil its responsibilities within the scope of CCP role, to ensure stability of all market participants while also protecting the CCP from stress events, to actively engage and respond to market developments and demands and to continuously enhance and extend the service provided in order to meet its members' requirements on the most reliable and efficient manner and based on a cost-benefit analysis.

Corporate governance arrangements are designed to ensure that these goals are pursued and are measurable and achievable, namely through the following practices:

- OMIClear's Board of Directors implement a rigorous annual financial planning process including the definition of financial and economic targets taking into account the European regulatory framework, the competitive environment, economic contingencies and other external market conditions;

- ➡ The goals and targets are tracked on an ongoing basis to ensure correct and efficient execution by the responsible management body;
- ➡ When planning and designing its business strategic, prioritization is given to three key aspects: i) to promote a well-founded risk management framework based on effective risk reduction mechanisms; ii) to continuously fulfil its obligations before its Clearing Members, especially regarding the high availability level of its MiClear system, the correct and timely provision of the clearing and settlement reports to its users, and full availability of the clearing staff to provide the most promptly client support during the established attending service; iii) to ensure a strong resilience of its technology and infrastructures and enough flexibility to adapt it to the evolving needs of the market players and regulatory requirements.

To measure and achieve each of the three above mentioned top priority goals of its global business strategy OMIClear has in place several procedures and metrics that can be summarised below.

- ➡ Well-founded risk management framework:
  - On a daily basis back testing and stress testing is carried out to control the adequacy of margin model and parameters (under normal or stressed events) compared to the coverage;
  - Adequacy of the level of financial resources held by the CCP is regularly measured through stress tests, reverse stress tests and sensitivity tests;
  - OMIClear is subject to monthly checks on the established key risk indicators for each department that perform critical functions inside the organization. These regular checks serve as an early warning tool for potential risk situations that may require intervention, either by a timely resolution of the source of risk or by the application of additional control measures to avoid significant losses to OMIClear. Relevant issues that might arise on these assessments are duly escalated across the organization.
- ➡ Continuously fulfil its obligations before its Clearing Members:
  - These obligations are clearly identified and publicly disclosed in OMIClear's Rulebook and Instructions. Under the scope of its CCP activity the following core responsibilities shall be complied by OMIClear towards its counterparties: the registration of the transactions and clearing and settlement of respective positions, calculation of clearing members' exposures (margins); calculation and demand of guarantees to cover these exposures, permanently control the risk assumed by the clearing members, ensure the orderly operation of the clearing platform, supervise the conduct of the clearing members, provide all times the information on the financial and physical responsibilities arising from the registration of transactions: mark-to-market, delivery settlement value, fees, margins, clearing fund, collateral value, daily operational limits;
  - In order to achieve these obligations OMIClear has in place a reliable clearing system that updates the positions arising from the registered trades, the



margins stemming from the cleared positions, the profit/losses throughout derivatives contracts lifecycle, collateral values and operational limits and provides a reporting service to its users (clearing members and clients) on both a close to real time and end-of-day basis;

- Within the scope of the regular internal audits carried out by internal Audit department special attention is dedicated to the provision of the information that OMIClear is committed to provide to its clearing members and any evidence found concerning a lack or delay on this information delivery, inaccuracy or erroneousness is immediately reported and shall trigger the appropriate actions to solve the issues.

☞ To ensure a strong resilience of its technology and infrastructures;

- MiClear system consists of a platform carefully tailored to OMIClear's specific requirements, but also flexible and scalable in order to support the introduction of new products and markets with reduced time and effort. All activity is performed over secure end-to-end channels based on the SSL/TLS standards which provide confidentiality, integrity and authenticity of data and peers. All traffic from external entities is mediated by hardware firewalls and captured by intrusion detection processes that look for known patterns of bad behaviour. If an attack pattern, such as a Denial of Service, is detected these security services act proactively and quickly block all suspicious traffic, freeing the used bandwidth for legitimate users.
- MiClear's architecture was designed to be redundant and fault tolerant across all resources involved in the response to client requests. All components of the architecture such as servers, application/connectivity interfaces, replication and backup procedures are fully documented and subject to external auditing on a yearly basis.
- Regarding disaster recovery procedures, in the event of a disruption, the IT Disaster Recovery Plan is activated and the system is temporarily halted and migrated to the disaster recovery site, which assumes the role of the main site. The clearing staff is then able to seamlessly re-establish access to the system in order to conclude the end-of-day procedures or resume normal market operations within 2 hours.
- Within the scope of the regular internal audits carried out by internal Audit department the clearing platform behaviour is considered one of the critical components that require full monitoring and caution. Therefore, some of key risk indicators include the monthly measurement of the number of cyberattacks detected, the total downtime of the MiClear system and other relevant information channels and the time lapse between the detection of a system bug and its resolution. Likewise, any indicator higher than the pre-defined thresholds is duly reported and analysed and shall trigger the appropriate interventions of the relevant OMIClear's teams.

### Key Consideration 3

An FMI should have established mechanisms for the regular review of its efficiency and effectiveness.

The Board of OMIClear meets at least on a bimonthly basis, which ensures that it is in control of the activity of the company, according to the risk framework defined, and in the period between meetings of the Board of Directors, any member of the Board may directly address the managing director and obtain any relevant information. The Executive Directors and the Chief Operating Officer meet daily on the Company premises. The Chief Operating Officer shall report immediately to the Executive Directors any urgent matter related to OMIClear activity that fall within the remit of the Board of Directors.

Although each department is responsible for monitoring and escalating its specific risks as necessary, OMIClear is subject to regular audits by its Internal Audit Department as well as independent external audits in accordance with EMIR requirements.

#### Assessment of principle:

Observed

## 3.22 Principle 22: Communication procedures and standards

*An FMI should use, or at a minimum accommodate, relevant internationally accepted communication procedures and standards in order to facilitate efficient payment, clearing, settlement, and recording.*

### Key Consideration 1

An FMI should use, or at a minimum accommodate, internationally accepted communication procedures and standards.

OMIClear developed a system which manages the clearing lifecycle of transactions matched or registered at the exchanges it is connected to. The clearing system can be used for members to monitor their cleared positions as well as settlement and margin information.

Clearing reports are available for retrieval via browser or via technical interfaces for automated integration using standard protocols such as SOAP or SFTP. Regardless of the methodology, all communication flows are secured using end-to-end encrypted channels.

Payment and settlement messages and instructions follow internationally accepted standards such as SWIFT or the ISO 20022 messaging standard.

#### Assessment of principle:

Observed

### 3.23 Principle 23: Disclosure of rules, key procedures, and market data

***An FMI should have clear and comprehensive rules and procedures and should provide sufficient information to enable participants to have an accurate understanding of the risks, fees, and other material costs they incur by participating in the FMI. All relevant rules and key procedures should be publicly disclosed.***

#### Key Consideration 1

An FMI should adopt clear and comprehensive rules and procedures that are fully disclosed to participants. Relevant rules and key procedures should also be publicly disclosed.

OMIClear makes available to the public complete and comprehensive information on rules and procedures through a variety of channels, including its public website, FTP service and MiClear system. Since the beginning of its activity OMIClear has always provided great attention on designing the rules and procedures on the most transparent and clear manner, allowing members to have an accurate understanding of the risks, fees and other material costs they incur at this CCP.

As stated before, the process for reviewing the rules and policies of OMIClear or for the creation of new rules foresees the consultation of affected clearing members, the involvement of the appropriate individuals inside the organisation (including the Audit and Compliance Committee or the Risk Committee when appropriate) and the provision of independent legal opinion with the view to streamline the approval or register process of the amendments with the relevant competent authority. This process is finalised through the final approval of amendment Rule or the new Rule by the Board of Directors and by the submission to its national competent authority (CMVM). After CMVM's approval (which may comprise or not the opinion of the remaining entities from EMIR College) at least 5 business days prior to the effective date OMIClear notifies by email all the members of the updated rules.

Besides the information provided through the above-mentioned channels or through the regular meetings held by its Clearing & Settlement Committee and Risk Committee or through specific bilateral meetings when deemed appropriate, OMIClear also provides regular training (general or in-house) to promote the understanding of the key functions and procedures of the CCP by the current or potential Clearing Members and clients.

#### Key Consideration 2

An FMI should disclose clear descriptions of the system's design and operations, as well as the FMI's and participants' rights and obligations, so that participants can assess the risks they would incur by participating in the FMI.

Relevant information on its design and operations can be found in the Information Systems tab of OMIClear's website and is available to the public, which includes a document available for download called "Information Systems Guide" that provides a detailed description to the

systems, the system access requirements, the connectivity options and the relevant contacts for the support. Systems security, reliability, functionality and system capacity are considered by OMIClear critical areas of focus.

For more information, please visit: <https://www.omiclear.pt/en/information-systems>.

Furthermore, the website of OMIClear gives an extensive view on the OMIClear Risk Management Framework, thereby providing Clearing Members and clients with information on all benefits as well as potential risks when choosing OMIClear as a CCP. In the risk management area of the OMIClear website, the various key topics for an adequate management of risks are explained in detail such as the lines of defence of OMIClear, the default management process or the margining process.

OMIClear provides also information on the committees established (Clearing and Settlement Committee and Risk Committee) to allow participants to assess their rights, risk and obligations related to OMIClear.

Since any material change to the current risk model of the CCP is elaborated in close contact with Clearing Members (through bilateral meetings and also meetings held with the OMIP Trading & Products Committee, MIBGAS Agents Committee and OMIClear Clearing & Settlement Committee) and the proposed changes to the clearing rules are always provided in advance to all market players before entering into force, the information is disclosed from an early stage allowing such players to assess the risks inherent from their participation in OMIClear.

It is also worth mentioning that OMIClear provides a close to real-time margining reporting in order to provide Clearing Members with permanent risk assessments on their own exposures as well as the exposure of their clients based on the updated positions and intraday changes in price volatility.

### **Key Consideration 3**

An FMI should provide all necessary and appropriate documentation and training to facilitate participants' understanding of the FMI's rules and procedures and the risks they face from participating in the FMI.

OMIClear conducts regular training sessions around the functioning of the CCP, rules and procedures and the clearing system (MiClear). Training sessions are available in-person at OMIClear building locations or at client premises. Clearing Members can contact the marketing department for ad hoc training requests and get a customized training session according to their specific needs. In any training session the slides presented are made available to the trainees. Clients or potential clients are also informed of the MiClear test environment and of the possibility to schedule a testing period in order to get use to the backoffice reporting provided by OMIClear.

Furthermore, regarding participants' understanding of the FMI, besides focusing on designing clear, comprehensive and self-explanatory rules to disclose in its website, OMIClear strives to

handle a high-quality client support by having expert staff that responds in an expeditious and constructive manner to the issues or clarifications raised by the clients or potential clients.

#### Key Consideration 4

An FMI should publicly disclose its fees at the level of individual services it offers as well as its policies on any available discounts. The FMI should provide clear descriptions of priced services for comparability purposes.

Fees for clearing and trading vary by product and volume traded, and whether the product is traded on the continuous trading regulated market, on the call auction regulated market or if it is a bilateral trade registered in the regulated market.

OMIClear informs its participants of any changes, updates, or additions to its services and/or fees structures. These information's are posted to the OMIClear website: <https://www.omiclear.pt/en/normative> and <https://www.omiclear.pt/en/fees-omiclear>.

Details about connectivity, including the logistical arrangements, are also included on the website: <https://www.omiclear.pt/en/information-systems>.

#### Key Consideration 5

An FMI should complete regularly and disclose publicly responses to the CPMI-IOSCO disclosure framework for financial market infrastructures. An FMI also should, at a minimum, disclose basic data on transaction volumes and values.

OMIClear's responses to the CPMI-IOSCO Disclosure framework can be found at: <https://www.omiclear.pt/en/periodic-reports>. The disclosure document is updated following material changes to the risk management infrastructure or at a minimum every two years. Additional information about OMIClear is available on the website, as cited throughout the document.

The following reports are produced by OMIClear on a daily basis and published to in its public website (<https://www.omiclear.pt/en/downloads>):

- Volumes and Open Interest
- Clearing Prices
- Initial Margin Input Tables

#### Assessment of principle:

Observed

### 3.24 Principle 24: Disclosure of market data by trade repositories

*A TR should provide timely and accurate data to relevant authorities and the public in line with their respective needs.*

Principle 24 is not applicable to OMIClear because it is not a TR.

#### **Conclusion:**

According to these assessments **OMIClear is of the opinion that it fully observes the CPMI-IOSCO Principles for FMIs.**

Approved on June 26<sup>th</sup>, 2024

OMIClear Board of Directors



## 4. Key Abbreviations and Terms

Abbreviations	Full Names
API	Application Programming Interface (of OMIClear's clearing platform)
BCMS	Business Continuity Management System
BM	Billing Margin
CCO	Chief Compliance Officer
CCP	Central Counterparty
CET	Central European Time
CIAO	Chief Internal Audit Officer
CM	Clearing Member
CMVM	<i>Comissão do Mercado de Valores Mobiliários</i>
CNMC	<i>Comisión Nacional de los Mercados y la Competencia</i>
CNMV	<i>Comisión Nacional del Mercado de Valores</i>
COO	Chief Operating Officer
CPMI	Committee on Payments and Market Infrastructures
CRD	Capital Requirements Directive
CRO	Chief Risk Officer
CRP	Credit Risk Policy
CSC	Clearing and Settlement Committee
CSC	Crisis Sub-Committee
CSD	Central Securities Depositories
DCA	Dedicated Cash Accounts (for the real-time gross settlement (RTGS) carried out by OMIClear at T2 and T2S systems)
DDRL	DTCC Derivatives Repository Ltd
DFP	Delivery Free of Payment
DFS	Daily Financial Settlement
DOL	Daily Operational Limit
DVP	Delivery Versus Payment
EACH	European Association of CCP Clearing Houses
EbPMC	Extreme but Plausible Market Conditions
ECAF	Eurosystem Credit Assessment Framework
ECB	European Central Bank
EEA	European Economic Area
EFS	Extraordinary Financial Settlement
EMIR	Regulation (EU) N.º 648/2012 of the European Parliament and of the Council of 4 July 2012 on OTC derivatives, central counterparties and trade repositories
EoD	End-of-Day
ERSE	<i>Entidade Reguladora dos Serviços Energéticos</i>
ESMA	European Securities and Markets Authority
ETD	Exchange-traded derivatives
EU	European Union
FMI	Financial Market Infrastructure
FTP	File Transfer Protocol
GMRA	Global Master Repurchase Agreement
ICC	Internal Crisis Committee

IM	Initial Margin
IOSCO	Committee of the International Organization of Securities Commissions
ISMS	Information Security Management System
ISO	International Organization for Standardization
KRI	Key Risk Indicator
MIBEL	<i>Mercado Ibérico de Eletricidade</i>
MIFID	Directive 2004/39/EC of the European Parliament and of the Council of 21 April 2004 on markets in financial instruments
MtM	Mark-to-Market
MWh	Megawatt-hour
NCA	National Competent Authority
NCM	Non-Clearing Member
OTC	Over The Counter. Used to refer either to trades on MIFID OTC Derivatives or to bilateral trades (OTC or ETD derivatives) registered at OMIClear
PPA	Power Purchase Agreement
PVB	<i>Punto Virtual de Balance</i> (Spanish Virtual Trading Point)
RA	Registration Agent
RFP	Receive Free of Payment
RTGS	Real-Time Gross Settlement
RTO	Recovery Time Objective
RTS	Regulatory Technical Standard
RVP	Receive Versus Payment
SFTP	Secure File Transfer Protocol
SIG	Skin in the Game
SM	Settlement Margin
SOAP	Simple Object Access Protocol
SPAN	Standard Portfolio Analysis of Risk
SSIG	Second Skin in the Game
SSL	Secure Sockets Layer
SSP	Single Shared Platform
STP	Straight Through Processing
TARGET	Trans-European Automated Real-time Gross Settlement Express Transfer System
T2	Real-time gross settlement (RTGS) system owned and operated by the Eurosystem
TLS	Transport Layer Security
TR	Trade Repository
TSO	Transmission System Operator
TTF	Title Transfer Facility
TVB	<i>Tanque Virtual de Balance</i> (Spanish Virtual Balancing Tank)
VM	Variation Margin