DEFAULT AUCTION EXAMPLE

Assumptions:

- 1 member defaulting and its portfolio is split over 2 auctions

Step 1 - Splitting up portfolio into 2 auctions and lining up the waterfal

- Actual losses at this point are unknown and are estimated by the Clearing House (CH)

	Waterfall Layers of Protection:	Portfolio 1 ($m)	Portfolio 2 ($m)	Total ($m)
1	Defaulter margin	2.0	1.0	3.0
2	Defaulter Guaranty Fund (GF) contribution	0.4	0.2	0.6
3	CH Initial Contribution	0.6	0.3	0.9
4	Remaining GF Contributions (Ranked Pari Passu with CH GF)	2.6	1.3	3.9
5	CH GF Contributions (Ranked Pari Passu with Remaining GF)	0.4	0.2	0.6
	Total resources	6.0	3.0	9.0

Notes

1 This is the Defaulter's margin requirement per portfolio on the point of default.

2 The Clearing House has discretion to decide how to allocate GF contribution over the portfolios. In this example the Defaulter's GF contribution is allocated on the basis of the Defaulter's margin requirement per portfolio on the point of default.

3 The Clearing House has discretion to decide how to allocate GF contributions over the portfolios. In this example the Clearing House Initial contribution is allocated on the basis of the Defaulter's margin requirement per portfolio on the point of default.

4 The GF contributions of the non-defaulting members and the Clearing House are initially lined up to be used pari passu.
The Clearing House has discretion to decide how to allocate GF contribution over the portfolios. In this example the GF contributions of the non-defaulting members are allocated on the basis of the Defaulter's margin requirement per portfolio on the point of default.

5 The GF contributions ofthe non-defaulting members and the Clearing House are initially lined up to be used pari passu.
The Clearing House has discretion to decide how to allocate GF contribution over the portfolios. In this example the Clearing House GF contribution is allocated on the basis of the Defaulter's margin requirement per portfolio on the point of default.

Step 2 - Impact of the auction results

- Actual loss for portfolio 1 after auction is $5.0m
- Actual loss for portfolio 2 after auction is $3.5m
- A certain Clearing Member has failed to make a legit bid in the auction for Portfolio 1

	Utilization of Waterfall Layers of Protection:	Portfolio 1 ($m)	Portfolio 2 ($m)	Total ($m)
	Defaulter margin	-2.00	-1.00	-3.00
	Defaulter GF contribution	-0.40	-0.20	-0.60
	CH Initial Contributions	-0.60	-0.30	-0.90
6	Failed bidder's GF contributions	-0.50		-0.50
7	Losing bidders' GF contributions	-1.50	-0.80	-2.30
8	Winning bidder's GF contributions (Ranked Pari Passu with CH CF)		-0.50	-0.50
9	CH GF Contributions (Ranked Pari Passu with Winning bidder's GF)		-0.20	-0.20
	Total resource usage	-5.00	-3.00	-8.00

	Utilization of Waterfall Layers of Protection (Across Portfolio):	Portfolio 1 ($m)	Portfolio 2 ($m)	Total ($m)
10	Excess resources	1.00	0.00	1.00
10a	Excess resources breakdown: Losing bidders' GF contributions	0.10		
10b	Excess resources breakdown: Winning bidder's GF contribution	0.50		
10c	Excess resources breakdown: CH GF Contributions	0.40		
	Excess losses	0.00	-0.50	-0.50
11	Application of excess resource from prior portfolio			
11a	Losing bidders' GF contributions (All GF from prior portfolio Ranked Pari Passu)		0.05	
11b	Winning bidder's GF contribution ((All GF from prior portfolio Ranked Pari Passu)		0.25	
11c	CH GF Contributions ((All GF from prior portfolio Ranked Pari Passu)		0.20	
12	Remaining Resources	1.00	-0.50	0.5
12a	Losing bidders' GF contributions (All GF from prior portfolio Ranked Pari Passu)			0.05
12b	Winning bidder's GF contribution ((All GF from prior portfolio Ranked Pari Passu)			0.25
12c	CH GF Contributions ((All GF from prior portfolio Ranked Pari Passu)			0.20

Notes

6 In this example the auction of portfolio 1 is assumed to have a failed bidder. The GF contribution of the failed bidder, to the extent allocated to portfolio 1, is juniorised to the GF contributions of the other non-defaulting members and the Clearing House.

7 For each auction, the losing bidders' GF contributions are ranked and juniorised accordingly to the GF contributions of the winning bidders. The losing bidders' GF contributions will be applied according to their ranking, with the less competitive bids to be applied first.

8 For each auction, the GF contributions of the winning bidder and the Clearing House will be applied pari passu after the GF contributions of the failed bidders and the losing bidders. In this example, losses for portfolio 1 did not require these GF contributions to be used.

9 For each auction, the GF contributions of the winning bidder and the Clearing House will be applied pari passu after the GF contributions of the failed bidders and the losing bidders. In this example, losses for portfolio 1 did not require these GF contributions to be used.

10 In this example, 10a relates to the excess resources from the losing bidders for portfolio 1; 10b relates to the unused contribution of the winner of the auction of portfolio 1; and 10c relates to unused Clearing House contributions.

11 The excess resources from portfolio 1 will be used to cover the excess losses for portfolio 2; the resource will be applied pari passu.

12 Remaining excess resources of $0.5m after offsetting $8.5m losses against $9m resources.