

Notes on key data points from Q1 2022 CPMI-IOSCO Quantitative Disclosure

IOSCO and the Committee on Payments and Market Infrastructures require all CCPs to publish quantitative disclosures on a quarterly basis. The disclosures provide information on a number of financial and risk-related parameters, which provide transparency of CCPs' financial resources, and enable users to understand the risks associated with central clearing and the controls in place.

Q1 2022 market background

Against the backdrop of the Russian invasion of Ukraine, prices of strategic commodities such as metals reached new highs during Q1 2022. Given Russia is among the leading exporters of nickel and aluminium, accounting for respectively 29% and 11% of global exports, the impact of supply chain uncertainty contributed to LME Nickel and LME Aluminium 3M prices increasing by 17% and 13% respectively over the week following the invasion on 24 February 2022.

On Friday 4 and Monday 7 March, nickel experienced exponential price rises and volatility significantly beyond that ever experienced in the contract. By the close of business on 7 March, the nickel contract had moved upward by 78% over the previous two trading days. Prior to this, the largest upward two-day price move in nickel was 26%.

In the early hours of Tuesday 8 March nickel prices moved up further very significantly in a short period of time. The LME therefore took the decision, in consultation with LME Clear, to suspend trading in all nickel contracts with effect from 08:15 UK time.

This decision to suspend trading was taken because in the LME's view the nickel market in the early hours had become disorderly.

In light of the unprecedented events in the nickel market in Q1, the notes below seek to provide some additional context and detail in relation to some of the disclosures that reflect the extent of the stress felt during this period.

Notes on disclosures

4.4.9 Due to the significant rise in the nickel price on the 7 March over a short period of time, the cover 2 stress loss – a standard stress test scenario where the largest two clearing members default – briefly exceeded the prefunded financial resources available to LME Clear in this scenario by \$600m (representing 123% of total resources available in the event of the theoretical default). As per standard process, this exceedance was closed off by calling default fund additional margin to cover the theoretical losses of the two members in the overnight margin call process that evening.

6.5.1 Margin breach scenarios theoretically backtest member portfolios versus the initial margin held by the clearing house. At the end of the first quarter of 2022, LME Clear had a total of 123 portfolio margin breaches over the previous twelve months, versus an average of 12 breaches in previous submissions since 2019, principally due to the volatility seen in nickel. Despite the increase in margin breaches over this quarter, the LME Clear coverage ratio for portfolio backtesting was 99.8% where initial margin has exceeded member portfolio losses, and LME Clear continued to pass all its other backtesting metrics on all key parameters and at a portfolio level.

6.5.4 The largest backtesting breach (actual variation margin loss versus initial margin held for one account), which considers the theoretical scenario of the largest clearing member not meeting payment obligations, shows a figure of \$2.002bn, versus an average of \$16mn for the maximum breach in previous submissions



since 2019. This theoretical loss would have occurred over 4 March and 7 March due to the significant rise in the nickel price of 78%. The figure assumes the default of a highly rated member and no risk management response by LME Clear on the 4 and 7 March.

6.8.1 On 7 March, LME Clear called \$7.05bn in (principally) variation margin to cover the changes in member portfolio value. This reflects the size and speed of the price move in nickel over the course of the day. The previous record day for margin calls before this quarter was \$1.8bn. All margin calls were settled by clearing members.

Any further questions from clearing members and clients on the LME Clear quantitative disclosures should be directed to [LME relationship management](#).