

**To:** All LME Clear Members

**Date:** 29 August 2023

**Ref:** 23-031

**Classification:** Risk

**Subject:** **Minimum level of the Default Fund**

### Summary

1. LME Clear will be introducing a new methodology for setting the minimum Default Fund size as part of the action plan to strengthen and enhance its markets.

### Defined terms

2. Terms not otherwise defined in this Notice shall have the meaning given to them in the LME Clear Rules and Procedures.

### Background

3. As set out in the LME Group Action Plan published in March 2023 (Clearing Circular 23-009), LME Clear is committed to ensuring that the proportion of risk that is mutualised within the Default Fund is fairly and stably correlated with unmutualised risk which is calculated by LME Clear as initial margin or additional margin.
4. As part of its review of the Default Fund calculation, and in accordance with LME Clear Default Procedure Part B:1.2(c), LME Clear has developed a new dynamic risk-based methodology to calculate the minimum size of the Default Fund, which further enhances the overall resilience of LME Clear.

### Details

5. The new methodology links the minimum Default Fund size to the recent level of risk (Initial Margin), being set as a percentage of the average Initial Margin over the previous six months.

6. LME Clear has undertaken a review of the minimum level of the Default Fund based on this new methodology and will change the minimum level of the Default Fund from \$1,300,000,000 to \$1,030,778,739 effective Friday 1 September. This reflects the lower level of risk experienced over the previous six months.
7. Members are advised that LME Clear will take this new minimum Default Fund size into account for the September monthly re-sizing, due to take place on Friday 1 September.
8. For further information and questions regarding this Circular please contact the Market Risk Team ([LMECMarketRisk@lme.com](mailto:LMECMarketRisk@lme.com)).

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