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Stress Testing

Eurex Clearing's foremost objective is to fulfil its obligations as a central counterparty. The clearinghouse must perform this role in both normal and the most extreme market conditions.

In fact, Eurex Clearing has defined coverage for these most extreme market conditions. This coverage stipulates that obligations will be backed in at least 999 out of 1,000 events with margin requirements and financial resources available in cases of post-default. Post-default backing include the collaterals and the Clearing Fund contribution of a defaulting member, the reserve fund of Eurex Clearing and clearing fund contributions of non-defaulting members, in that order.

Eurex Clearing has a stress test procedure in place that aims to verify that post-default backings are sufficient to cover the risk exposure of defaulting clearing members in the most extreme market conditions. Each clearing member's risk exposure is stress tested against a comprehensive set of scenarios for all the product groups that it clears. Scenarios include the worst historical observations that have been experienced in each of the product groups as well as executive management's expectations on worst potential future price movements. Scenarios based on historical observations are mainly of two types:

- I Price movements across all product groups on specific crisis days
- I Historically largest moves per product group independent of the observation day.

The stress test is performed on the risk exposure of each clearing member. Potential losses based on stress scenarios are compared to each member's additional margin. Losses beyond additional margin are then compared to the Clearing Fund. How much of the Clearing Fund is consumed by the theoretical stress-test calculations is identified and analyzed on a daily basis. Intraday stress tests are performed by Eurex Clearing in extraordinary market situations.

As soon as the consumption of the clearing fund by any clearing member -irrespective of its credit quality - breaches a defined threshold, Eurex Clearing board decides to take risk mitigating actions. Risk mitigating actions include member-specific actions, e.g. extra margin requirements or an increase of the size of the Clearing Fund by increasing the Clearing Fund contribution by all members.

The stress test scenarios and procedure are subject to a regular review.