Eurex Clearing Circular 080/18

Collateral management: Exclusion of unsecured bank bonds following changes in European Central Bank's eligibility criteria

Summary

The European Central Bank (ECB) announced in a press release that it will exclude senior unsecured bank bonds from its eligibility list **after 31 December 2018**.

In general, central bank eligibility is one prerequisite of Eurex Clearing AG (Eurex Clearing) for eligibility of most of the cleared bond products as well as for the eligibility as collateral for margins or secured financing products.

In line with the changes in ECB eligibility, affected instruments may also lose Eurex Clearing eligibility, as collateral eligible for margins, GC Pooling® and Principal Collateral or as cleared product for Repos (GC & Special) and Securities Lending (Loan Securities and Principal Collateral).

Impacted Clearing Members are requested to prepare the substitution of instruments that might become ineligible following the changing eligibility criteria of ECB until 31 December 2018.

Attachments:

- none

Date: 19 September 2018

Recipients:
All Clearing Members of
Eurex Clearing AG and Vendors

Authorized by:
Thomas Laux

Target groups:

- Front Office/Trading
- Middle + Back Office
- Collateral Management

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Collateral management: Exclusion of unsecured bank bonds following changes in European Central Bank's eligibility criteria

The European Central Bank (ECB) announced in a press release on 14 December 2017 that it will exclude senior unsecured bank bonds from its eligibility list after 31 December 2018.

Central bank eligibility is one criterion for most of the bonds Eurex Clearing accepts

- as deal securities for cleared products (i.e. Repo (Special/GC) or Loan Securities for Securities Lending),

  or
- as deal collateral for cleared products (i.e. Principal Collateral for Securities Lending or GC Pooling®),

  or
- as margin collateral eligible to meet margin obligations and the default fund contribution.

Eurex Clearing will adapt the eligibility of senior unsecured bank bonds based on the migration approach of the ECB. In case a bond loses ECB eligibility, the respective bond will become ineligible at Eurex Clearing for the above-mentioned purposes.

Therefore, all Clearing Members currently using potentially affected unsecured bank bonds are kindly requested to prepare

- the termination of cleared transactions in likely affected bonds,
- the substitution of likely affected bond collateral for GC Pooling® and securities lending and
- the substitution of likely affected bond collateral for margin and default funds

to avoid margin calls.

To support the market and its Clearing Members, Eurex Clearing will actively monitor unsecured bank bonds exposures and contact potentially affected Clearing Members on an individual basis.

In case exposures in likely affected bonds increase significantly in Q4/2018 or if ECB publishes criteria that allow to uniquely identify instruments which will lose ECB eligibility after 31 December 2018, Eurex Clearing reserves the right to exclude individual instruments from its eligibility set before 31 December 2018.

We kindly ask you to forward this circular to all involved departments within your company.

If you have any questions or require additional information, please contact Risk Control on tel. +49-69-211-1 28 28 or e-mail: risk@eurexclearing.com.

19 September 2018