



DEUTSCHE BÖRSE
GROUP

Eurex Clearing Solutions for the Buyside

Firms Impacted by EMIR and UMR

July 2019



Access to CCP Clearing Services Post Brexit

The **clearing obligation for Category 3** is set for **21 June 2019**. The excess of the clearing threshold for **at least one class of OTC derivatives**, calculated at the group level, **triggers the clearing obligation for all classes of OTC derivatives**, i.e. affected market participants need to ensure **permanent access to an ESMA authorized CCP** to comply with EMIR regulations

UK CCPs

Temporary Permissions Regime:

- ESMA grants ESMA authorized CCPs in UK approval to continue providing clearing services in Europe
- Validity: **1 Year**
- Cross border passporting rights between market participants: subject to individual exemptions with local authorities

Post Temporary Permission:

- Non-EU CCPs need to be recognized as third country CCP under EMIR to receive permanent permission
- Recognition is subject to **systemic relevance assessment** of EU authorities under EMIR 2.2

EU27 CCPs

Temporary Permissions Regime:

- The BoE grants ESMA authorized CCPs approval to continue providing clearing services in UK
- Validity: **3 Years**
- Cross border passporting rights between market participants: subject to individual exemptions with local authorities

Post Temporary Permission:

- The UK's withdrawal from the EU requires changes to be made to UK legislation
- The BoE anticipated that when the UK leaves the EU, the UK authorities will apply the recognition regime currently in force in the EU

Pursuant to Commission Delegated Regulation on Clearing Thresholds the relevant values are:

- (a) EUR 1 billion in gross notional value for OTC credit derivative contracts;
- (b) EUR 1 billion in gross notional value for OTC equity derivative contracts;
- (c) EUR 3 billion in gross notional value for OTC interest rate derivative contracts;
- (d) EUR 3 billion in gross notional value for OTC foreign exchange derivative contracts;
- (e) EUR 3 billion in gross notional value for OTC commodity derivative contracts and other OTC derivative contracts not defined under points (a) to (d).

Key considerations for Firms Impacted by EMIR and UMR

Competition has created choices which need to be evaluated ...



1. COMPLICATED PROBLEM

- Regulatory compliance
- Political uncertainty
- Best Execution obligations
- Cost

2. Evaluate Choices

- Choose a CCP
- Choose a Clearer
- Decide level of segregation
- Choose execution platform

3. To Drive Efficiency

- Operationally efficient
- Cost effective
- Optimise collateral
- Access

Key Regulations Impacting Buyside Firms

EMIR

Regulatory Obligations

- Category 3 firms subject to mandatory clearing obligation from 21st June 2019
- Financial counterparties (FC) and Alternative Investment Funds (AIF) with gross notional outstanding over the 3-month measurement period above any defined threshold (€3bn OTC IRS/FX/Commodity, €1bn CDS/Equity)
- EMIR REFIT does not foresee any phase-in period and hence firms must be able to perform necessary calculations immediately

**EMIR Refit effective
17 June 2019**

Clearing obligation for Category 3 starts 4 months following their notification to ESMA and the relevant NCAs (at the latest possible until 17 June 2019)

→ **Clearing Obligation starts on 17 October 2019**

Otherwise clearing obligation starts on 21 June 2019

UMR

Firms Subject to Uncleared Margin Rules

- Firms with an aggregate average notional amount (AANA) of greater than €8 billion will need to pay Initial Margin on non-centrally cleared derivatives – has been moved back a year to 1 September 2021.
- An additional interim threshold of €50 billion ANNA has been introduced, effective on the original date for Phase 5 – 1 September 2020.
- Estimated 800 firms may be required to calculate margin.
- Firms caught by the threshold will require segregated margin and custody arrangements

MIFID II

Best Execution Considerations

- All firms have a Best Execution obligation
- Cleared execution price potentially beneficial over bilateral price
- Must take into consideration all costs, execution, clearing and collateral
- Life time margin funding cost a key determinant driven by range of eligible collateral
- Integration of derivatives with funding & financing can significantly reduce costs

Ensure continuity of business in the event of Hard Brexit/Euro location policy and reduce the operational impact and costs of UMR.

Initial Margin Segregation - Where are we now, phase 4 & 5

Phases 1 through 3 primarily captured large financial institutions

The final phases of IM implementation will be more intense than any of those experienced to date.

There are a significant number of parties coming into scope in the final phases, with Cat 3 in scope already from June 2019.

The market now faces a number of serious challenges as a wave of new counterparties come into scope in September 2020 and 2021.



Phase IV 1 Sept 2019	Phase V 1 Sept 2020
\$1t	\$3b
€0.75t	€8b
¥105t	¥1.1t
Can\$1.25t	Can\$12b
SFr0.75t	SFr8b
S\$1.2t	S\$13b

9,500 new relationships
1,100 NISCs
19,000 segregated accounts

Best Execution - Cost of Trading & Clearing

What does it mean?

Article 27 of **MiFID II** sets out these characteristics under the obligation to execute orders on terms most favourable to the client, where firms must consider:

Price

Costs

Speed

Likelihood of
execution and
settlement

Size

Nature

...or any other
relevant
consideration

Day 1 Considerations:

Access to Trade:

- Bilateral or Cleared
- OTC or listed

Price of Trade:

- Bid/Offer spread
- Cost of capital drivers; CCP c-factor, DF efficiency, compression probability
- Dealers' position

Lifetime cost considerations:

- Initial Margin
- Cost of funding
- Collateral eligibility
- Fees
- Operational costs
- Asset safety

Clients need to review their 'Best Execution' policies – It is no longer just about best price

Large Dealers Provide Liquidity on Multiple Platforms

Eurex-LCH Price Comparison

2yr		5yr		10yr		30yr	
EUREX	LCH	EUREX	LCH	EUREX	LCH	EUREX	LCH
0.3	0.4	0.1	0.1	0.1	0.1	0.1	0.1
0.3	0.3	0.2	0.3	0.2	0.3	0.4	0.6
0.3	0.3	0.3	0.5	0.3	0.3	0.4	0.4
0.3	0.3	0.3	0.3	0.3	0.3	0.4	0.4
0.3	0.3	0.3	0.3	0.3	0.3	0.4	0.4
0.3	0.3	0.3	0.3	0.3	0.3	0.5	0.6
0.3	0.3	0.4	0.4	0.4	0.5	0.5	0.5
0.4	0.4	0.4	0.4	0.4	0.4	0.5	0.5
0.4	0.4	0.4	0.4	0.4	0.4	0.5	0.5
0.4	0.3	0.4	0.4	0.4	0.4	0.6	0.6

Top 10 quotes per tenor as of 02/07/2019
(Source: Tradeweb)

Switch CCP & Uncleared

Multiple liquidity sources:

- Transparent tight prices, all tenors
- Unique Anonymous Order Book
- Customised RFQ, RFM and DS




Switch CCP & Uncleared

- Single Trade
- Portfolio Risk Transfer
- Portfolio of Trades Transfer

Optimisation and backloading

- Switch across CCP & Uncleared

Central Limit Order Book (CLOB)

 Trad-X (D2C) dealer to clients
 Liquidity at a Touch
 bgc D2D CLOB
 Tradition Hybrid Order Book
 combining voice/Trad-X

5
Banks

Disclosed Streaming (DS)

 Tradeweb
 Bloomberg®
 TP ICAP

10
Banks

Disclosed Streaming (DS)

 Tradeweb
 Bloomberg®

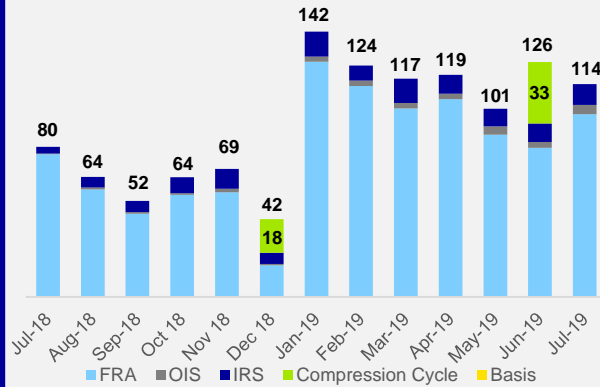
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Banks

“We offer the same bid-offer spreads and sizes for Eurex and LCH in Euro Swaps and see no disadvantage in terms of liquidity for clients using Eurex Clearing”

Euro liquidity continues to shift to Eurex Clearing with market share and membership increasing each month

Volumes as of 29 July 2019

Average Daily Volume in € bn

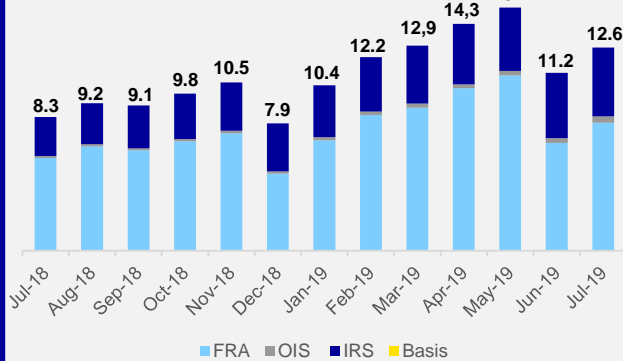


+ 41%

€114bn ADV
As of 29 July 2019

8.7% EUR Market Share³
as of 26 July 2019

Notional Outstanding in € tn



+ 51%

€12.6tn Notional Outstanding
as of 29 July 2019

12.1% EUR Market Share
as of 26 July 2019

% YoY: ADV July '19 vs July '18
% YoY: Notional Outstanding July '19 vs July '18
Market share source: Clarus FT

Participants

+15¹

82
Clearing Members

+100¹

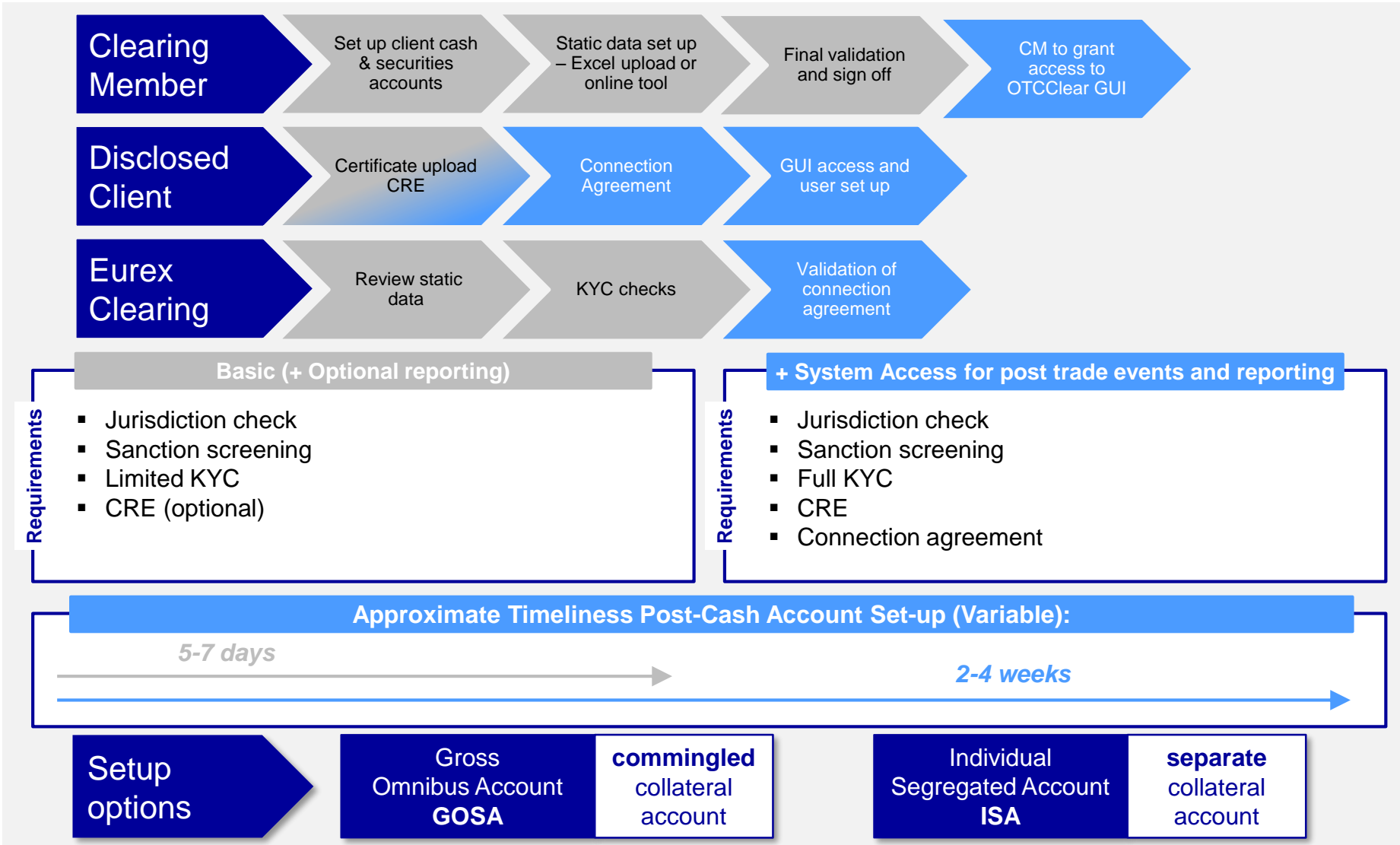
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Disclosed Clients²

Development

- 1 Price transparency & competitive quotes
- 2 Establish significant FRA Market Share
- 3 Onboarding Buy-Side clients
- 4 CCP switch, Live Run April 2019
- 5 Grow open interest in IRS / OIS **On Track**
- 6 Build Non-EUR Liquidity **Started**

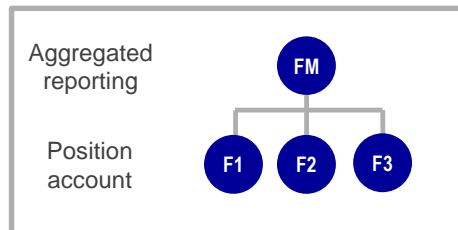
1 Reflects newly admitted clients since 1 Jan 19
2 Multiple Clearing relations of the same entity are not counted
3 Based on ADV and subject to the ECAG Trading Calendar 2019

Easy Onboarding under new disclosed client regime



Unique Fund Manager Model for Operational Efficiency

Fund Manager Set Up



FM Fund Manager F Fund

- Eurex Clearing has developed a **reporting and legal approach for funds** which **streamlines the on-boarding process** and **provides flexibility** for an **efficient position and collateral account set-up**.
- For documentation purposes, the Fund Manager simply lists all funds it is acting on behalf of. There is **no need for each fund to sign legal agreements with Eurex Clearing**.
- The Fund Manager receives **detailed and aggregated reporting**.
- Position account set-up with **positions segregated at fund level**.

Fund Manager set-up is available for all collateral segregation options:

GOSA

+

ISA

On-boarding and with Eurex Clearing - no regret move

Same Spread

- More than 20 dealers offer same spreads and sizes for Euro swaps on electronic trading platforms
- No basis and balanced client flow



In the EU 27

- Regulatory compliance regardless of Brexit outcome



Lowest Financing Costs

- X-Margining with fixed income futures and planned with repos
- Largest collateral spectrum globally



Proposed Next Steps for Category 3 Firms?

Clearing

- Engage clearing broker to onboard with Eurex Clearing
- Choose segregation model
- Onboard with Eurex Clearing within 5 days as disclosed client
- Test connectivity & Go live

Execution

- Choose trading venue (Bloomberg, Tradeweb, Trad-X, etc)
- Decide on combination of execution methods; RFQ,DS,CLOB
- On-board with execution platform
- Set up limits with clearing broker per execution platform

Legacy Portfolio

- Engage switch providers, Tradx, Capitalab, Tradeweb, Bloomberg
- Select and onboard with CCP switch provider
- Optimise portfolio / switch from Non EU27 CCP
- Backload bilateral portfolio

Market participants value greater choice & competition

Quotes from our Partnership Program Members.

"Eurex is the **world's largest derivative exchange** by open interest. In 2018, our open interest rose by 18% to 120.5mn contracts. According to the Futures Industry Associate (FIA), this puts Eurex in pole position."

Link to article: <http://intranet.deutsche-boerse.de/INTRANET/ihp.nsf/embWebNewsE/EA10DF60A31ECADFC1258391002F3905?OpenDocument>



"Clients are looking for a market-led alternative to clear interest rate swaps – and we are a committed partner. This way we support the financial industry in times of enduring uncertainty and foster choice and competition in the interest rate swap market together with our clients."

Erik Mueller, CEO Eurex Clearing



"Eurex is the Risk Awards 2019 winner of the **Clearing House Innovation of the Year** award."



"This initiative will bring greater choice and transparency to the market as well providing the opportunity for greater risk diversification and resiliency. We view these as important developments to benefit all market participants."

Charles Bristow, Co-Head of Global Rates Trading, J.P. Morgan



"Our clients are interested in an alternative solution to clear OTC interest rate swaps within Europe. Eurex Clearing's ISA Direct offers significant benefits in the domain of counterpart exposure and balance sheet management. We are pleased to extend our clearing services on Eurex and welcome the partnership proposal as a positive development for the market."

Alexander Jacobs, Head of OTC Derivatives at ABN AMRO Clearing



"DZ BANK is highly appreciating the new market solution to support the development of an alternative liquidity pool in the EU. To be part of the EU based liquidity pool gives our customers and us the needed flexibility to deal with the prolonged uncertainty."

Michael Engbers, Head of Interest Rates Trading at DZ BANK



"Deutsche Bank has engaged early as a design partner in the program. Our global clients value choice and transparency and the program is designed to deliver this."

Dr. Stefan Hoops, Global Co-Head of Institutional Client Group at Deutsche Bank



"We welcome the broad market support as a design partner for the Eurex Clearing partnership program. This market-led initiative will bring greater choice, transparency and competition to the market place and benefit our global client base."

Jerome Kemp, Global Head of Futures, Clearing & Collateral at Citigroup



"We welcome this initiative which is a positive step towards greater client choice, flexibility and portfolio diversification when looking to navigate the current regulatory landscape."

Nikolaus Giesbert, Divisional Board Member Fixed Income & Currencies at Commerzbank



"HSBC is pleased to be part of this initiative offering more transparency and choice to our clients and market participants. We see it as an important step for European derivative markets."

Christophe Rivoire, Global Head of Rates at HSBC



"Liquidity is key to successfully build an alternative liquidity pool for OTC interest rate swaps. The partnership program sets the right focus points and incentives for further improving the price transparency and price quality for Eurex cleared swaps."

Dr. Thilo Roßberg, Head of Fixed Income Currency & Commodity Markets at LBBW



"We are very pleased to be involved in this initiative in order to support our customers in their business."

Julio Sobremazas, Global Head of Interest Rates at BBVA



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