



## eurex clearing circular 062/14

**Date:** 16 May 2014  
**Recipients:** All Clearing Members and Registered Customers of Eurex Clearing AG and Vendors  
**Authorized by:** Thomas Laux

### **Introduction of Eurex Clearing Prisma release 2.0: Extension of product scope and availability of cross-margining**

**Related Eurex Clearing circulars:** 024/13, 098/13, 159/13, 019/14

**Contact:** Member Services & Admission, T +49-69-211-1 17 00, [memberservices@eurexclearing.com](mailto:memberservices@eurexclearing.com)

#### **Content may be most important for:**

- Ü Front Office/Trading
- Ü Middle + Backoffice
- Ü Auditing/Security Coordination

#### **Related documents:**

Only available in the Member Section on the Eurex Clearing website:

1. Eurex Clearing Prisma – User Guide Methodology Description Release 2.0 (final version)
2. Eurex Clearing Prisma – Report Reference Manual Release 2.0 (final version)
3. Eurex Clearing Prisma – User Guide Cross Margining Release 2.0 (final version)

#### **Summary:**

Eurex Clearing Prisma, the portfolio-based risk management method, offers an innovative way to maintain reliable margin levels, while in parallel provide considerable capital efficiencies to its Members. With Eurex Clearing Prisma release 2.0, more products, additional capital efficiencies and extended services will be introduced. Furthermore, Eurex Clearing Prisma will offer cross-margining benefits between Interest Rate Swap (IRS) products cleared through EurexOTC Clear and listed fixed income (FI) and money market (MM) products.

With this circular, Eurex Clearing announces the introduction of Eurex Clearing Prisma release 2.0 for Monday, **26 May 2014**. From this date onwards, Clearing Members will be able to migrate their listed FI products to the margin methodology and benefit from the efficiencies achieved in Eurex Clearing Prisma as well as from cross-margining between IRS products and listed FI products.



**Introduction of Eurex Clearing Prisma release 2.0:**  
**Extension of product scope and availability of cross-margining**

Eurex Clearing Prisma, the portfolio-based risk management method, offers an innovative way to maintain reliable margin levels, while in parallel provide considerable capital efficiencies to its Members. Eurex Clearing Prisma release 2.0 will extend and complement the risk management capabilities in various dimensions:

- **Extended product scope:** Listed fixed income (FI) and money market (MM) derivatives will be included in the Eurex Clearing Prisma margin methodology.
- **Increased capital efficiencies:** Cross-margining of OTC products cleared through the EurexOTC Clear for IRS service and listed FI products will be supported. An automatic Cross Margin Optimizer ensures that an optimal hedge ratio between listed and OTC products will be applied.
- **Improved methodology:** The risk methodology will be enhanced and improved to reflect the risks within a portfolio even more adequately.
- **Extended service offering:** The Margin Calculator provided as part of the EurexOTC Clear service will be extended to cover listed products, which are available in Eurex Clearing Prisma, enabling Members to estimate margin requirements for listed products, IRS positions and potential cross-margin benefits.

## **1. Products included in Eurex Clearing Prisma**

In addition to the products introduced in Release 1.0, the following products are in scope for Eurex Clearing Prisma Release 2.0:

- Futures on German debt securities (FGBS, FGBM, FGBL, FGBX)
- Futures on French debt securities (FOAM, FOAT)
- Futures on Italian debt securities (FBTS, FBTM, FBTP)
- Futures on Swiss debt securities (CONF)
- Money market futures (FEO1, FEU3)
- Options on futures on German debt securities (OGBS, OGBM, OGBL)
- Money market options (OEU3)
- Options on futures on French debt securities (OOAT)
- Mid-Curve Options (OEM1, OEM2, OEM3, OEM4)

A full list of products available in Eurex Clearing Prisma Release 2.0 can be found on the Eurex Clearing website [www.eurexclearing.com](http://www.eurexclearing.com) under the following link:

**Risk Management > Risk parameters**

## **2. Cross-margining functionality for listed and OTC products**

Depending on the Clearing Member's choice to apply cross-margining, the Cross Margin Optimizer process will analyse the portfolios and allocate listed FI and MM products to the liquidation group split with the OTC IRS products intraday in regular intervals. Thereby, the Cross Margin Optimizer ensures that an optimal allocation of positions based on portfolio sensitivities will be achieved within the portfolio. The resulting margin figures for IRS products will be consolidated in the Eurex Clearing Prisma reports.

For further information please refer to the "Eurex Clearing Prisma – User Guide Cross Margining Release 2.0" in the [Member Section](#) of the Eurex Clearing website under the following link:

**Member Section > Clearing Resources > Eurex Clearing Prisma > Documents & Circulars >**  
**Documents Release 2.0**

### 3. Changes in the Eurex Clearing Prisma methodology

The following minor adjustments of the methodology will be implemented with Eurex Clearing Prisma Release 2.0:

- The scenario generation for futures and future-style options has been adapted in order to reflect the cross-currency risks inherited in a portfolio more adequately.
- The aggregation of the compression model adjustment from position to liquidation group split level will be performed in a more adequate way.
- The Long Option Credit compensates a long option-dominated portfolio and provides a credit in case the initial margin exceeds the premium margin.
- The rounding and precision of reported figures in the Transparency Enabler (TE) files will be adapted to the precision of the internal calculation of margin figures. Therefore it will be possible to replicate the margin figures with increased precision.
- The premium margin calculation has been slightly adjusted to use the same rounding rule as with the Risk Based Margining methodology.

All changes to the methodology are reflected in the final versions of the “Eurex Clearing Prisma – User Guide Methodology Description Release 2.0” and “Eurex Clearing Prisma – Report Reference Manual Release 2.0” documents. They are available on the Eurex Clearing website for download under the following link:

**[Member Section](#) > [Clearing Resources](#) > [Eurex Clearing Prisma](#) > [Documents & Circulars](#) > [Documents Release 2.0](#)**

### 4. Extended service offering

New Transparency Enabler (TE) files will be provided containing settlement prices for Eurex Clearing Prisma-eligible products to replicate the changed calculation of scenario generation for futures and future-style options and details to enable replication of the Cross Margin Optimizer. Existing files will be improved to simplify the margin replication of the Eurex Clearing Prisma methodology. The file structure and layout are described in the final version of the document “Eurex Clearing Prisma – User Guide Methodology Description Release 2.0” (see chapter 4.).

#### **Migration to Eurex Clearing Prisma (simulation and production)**

A parallel report service (hypothetical margin reports) will be provided to all Members who have not yet migrated individual accounts to Eurex Clearing Prisma. These reports are produced under the assumption that a Clearing Member migrates all positions of all Liquidation Groups which are already available under the margin methodology to Eurex Clearing Prisma. Detailed information regarding the hypothetical margin reports can be found in Eurex Clearing circular 024/13 and in the “Eurex Clearing Prisma Customer Roadmap”.

To assist and facilitate the individual migration process to Eurex Clearing Prisma, Eurex Clearing provides Members with a migration tool. The tool is accessible via the [Member Section](#) on the Eurex Clearing website under the following the link:

**[Member Section](#) > [Clearing Resources](#) > [Eurex Clearing Prisma](#) > [Migration Tool](#)**

A detailed description regarding the migration to Eurex Clearing Prisma can be found in the “Eurex Clearing Prisma Migration Tool User Guide” which is available for download in the [Member Section](#) under the link:

**[Member Section](#) > [Clearing Resources](#) > [Eurex Clearing Prisma](#) > [Documents & Circulars](#) > [Documents Release 2.0](#)**

Please note that even in cases, where Clearing Members have already migrated the first Liquidation Group to Eurex Clearing Prisma, the settings for all future Liquidation Groups are not set automatically. Therefore we strongly advise that each Clearing Member validates the correct settings by means of the Eurex Clearing Prisma migration tool.

### **Margin Calculator**

Eurex Clearing offers a browser-based Margin Calculator as part of the EurexOTC Clear service to enable its Members to estimate their margin requirements. With the introduction of Eurex Clearing Prisma release 2.0, the Margin Calculator will also be able to handle listed FI, MM, equity and equity index derivatives.

The Margin Calculator is available using a Web GUI, allowing Members to assess the margin requirement for a trade or a portfolio. Users of the Web GUI can mirror their production portfolios and add simulated trades for running a what-if-scenario before submitting trades for clearing. Alternatively, the Web GUI enables uploading a complete portfolio in a defined format (csv format). The results of the margin calculation are shown in the Web GUI and can be downloaded.

For more information on the EurexOTC Clear Margin Calculator, please refer to the document "EurexOTC Clear Margin Calculator User Guide", which also contains the link to the Margin Calculator. The guide can be downloaded from the [Member Section](#) on the Eurex Clearing website under the link:

**[Member Section](#) > [Clearing Resources](#) > [EurexOTC Clear](#) > [IRS Release 4.0](#) > [Technical Manuals](#)**

### **Short expiry splits**

Also release 2.0 of the Eurex Clearing Prisma margin model allows risk offsetting at portfolio level between derivative positions with different underlyings and expiries, given the assumption that these positions can be hedged and sold off as a portfolio in case of a default.

The liquidation period (i. e. the time required to complete default management process including portfolio analysis, pricing, hedging, and auctioning the portfolio), which is used to calculate margin, is set to four business days for equity and equity index derivatives, two business days for FI and MM products, and five business days for IRS products. If a given position has less time to expiry than the liquidation period it is spun off into a separate portfolio (known as the "short expiry split") for margining purposes. Such positions will require immediate special treatment as they can not be considered as hedge during the full liquidation period. It is therefore possible that margin requirements can increase as positions near expiry move into the short expiry split and Members should take note of this and consider this in their actions.

### **Documentation**

All Eurex Clearing Prisma-related documents are available for download in the [Member Section](#) on the Eurex Clearing website under the following link:

**[Member Section](#) > [Clearing Resources](#) > [Eurex Clearing Prisma](#) > [Documents & Circulars](#) > [Documents Release 2.0](#)**

If you have any general questions, please contact Member Services & Admission, tel. +49 69 211 1 17 00, e-mail: [memberservices@eurexclearing.com](mailto:memberservices@eurexclearing.com).

16 May 2014