



## eurex clearing circular 126/14

**Date:** 29 August 2014  
**Recipients:** All Clearing Members of Eurex Clearing AG and Vendors  
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### Clarification of the Own Issues and Close Links Rule for margin collateral and principal collateral

**Related Eurex Clearing circulars:** 046/11, 121/13

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**Content may be most important for:**

- Ü Middle + Backoffice
- Ü Auditing/Security Coordination

**Attachments:**

none

**Summary:**

Eurex Clearing only accepts collateral with high credit quality (i.e. investment grade). In order to prevent unfavourable impacts on the collateral value in case of a Clearing Member default, a prudent concentration and wrong way risk framework has been introduced with Eurex Clearing circular 121/13.

As announced in aforementioned circular, Eurex Clearing restricts Clearing Members to deposit securities as collateral which are classified as "Own Issues" or "Close Links". This applies to margin collateral as well as to principal collateral of centrally cleared repo transactions including GC Pooling<sup>®</sup>, and securities lending transactions cleared via Eurex Clearing's Lending CCP (i.e. Securities Financing Transactions).

In reply to several inquiries by Clearing Members, Eurex Clearing hereby clarifies its "Own Issues" and "Close Links" handling and defines certain exceptions to the rules.

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



## **Clarification of the Own Issues and Close Links Rule for margin collateral and principal collateral**

In this circular, Eurex Clearing clarifies certain aspects of its eligibility criteria for the admissible securities to cover margin requirements and for the principal collateral of Securities Financing Transactions (SFTs) of Eurex Repo GmbH and Eurex Clearing's Lending CCP.

### **Current eligibility rules**

In general, Eurex Clearing only accepts collateral with high credit quality (i.e. investment grade). In order to prevent unfavourable impacts on the collateral value in case of a Clearing Member default, a prudent concentration and wrong way risk framework were introduced in the Clearing Conditions for Eurex Clearing AG on 11 November 2013 (see Eurex Clearing circular 121/13).

Eurex Clearing thereby restricted Clearing Members to deposit securities as collateral which are guaranteed or issued by the collateral provider ("Own Issues") or by a legal entity that is a highly interlinked cooperation ("Close Link"). This applies to margin collateral, as well as to principal collateral within GC Pooling<sup>®</sup> repurchase agreements, GC (General Collateral) Repo and Special Repo trades, as well as to the principal collateral and loan securities of lending transactions cleared via the Lending CCP (i.e. Security Financing Transactions – SFTs).

Further, Eurex Clearing introduced key principles for the assessment and monitoring of credit risks, concentration risks and wrong way risks in its Clearing Conditions. Based on these key principles Eurex Clearing performs internal credit assessments of its Clearing Members, defines concentration risk limits and thresholds, and wrong way risk thresholds.

### **Newly introduced definition of exceptions**

Several Clearing Members have requested clarification of the current handling in respect to covered bonds. Against this background, Eurex Clearing enhances its "Own Issues" and "Close Links" rules (i.e. complete prohibition) by excluding securities from the "Own Issue" and "Close Link" prohibition if they have at least one of the characteristics listed below:

1. Financial instruments of selected public issuers according to the definition in the Clearing Conditions for Eurex Clearing AG<sup>1</sup>
2. Issues of central governments with a defined minimum credit quality<sup>2</sup> that Eurex Clearing currently recognizes as guarantors; presently the following countries/governments qualify as guarantors<sup>3</sup>: Austria, Belgium, Canada, Denmark, Finland, France, Germany, Hong Kong, Luxembourg, Netherlands, Norway, Sweden, Switzerland, United Kingdom, United States
3. Covered bonds of issuers with high credit quality<sup>4</sup> based on Eurex Clearing's internal assessment, to which the following dedicated laws<sup>5</sup> apply (i.e. covered bonds where the assets backing these bonds are appropriately segregated)<sup>6</sup>:

Germany:

- Mortgage bonds pursuant to the Mortgage Bond Act of 19 July 2005
- Public sector mortgage bonds pursuant to the Mortgage Bond Act of 19 July 2005
- Collateralisation as per Section 6 (1) of the German Mortgage Bank Act (mortgage collateralisation)

<sup>1</sup> Clearing Conditions for Eurex Clearing AG, Chapter I, Part 1, No. 2.1.3.

<sup>2</sup> In this context "minimum credit quality" approximates external ratings in a range from AAA to AA. However, Eurex Clearing's internal rating is the basis for a potential exception.

<sup>3</sup> The list of countries might be revisited in the future.

<sup>4</sup> High internal credit quality approximates external ratings in a range from AAA to A3/A-. However, Eurex Clearing's internal rating is the basis for a potential exception.

<sup>5</sup> The list of laws might be revisited in the future

<sup>6</sup> Commission Delegated Regulation (EU) No 153/2013 (ESMA) Ch. X, Art. 39 and Annex I, Section I (g) (i)

- Collateralisation as per Section 41 of the German Mortgage Bank Act (guaranteed by public sector agency)

Denmark:

- Collateralisation as per the Danish Mortgage Bond Act

France:

- Collateralisation as per Financial Sector Law of 5 April 1993 (Provisions in respect of mortgage banks: "Banques d'émission de lettres de gage" (mortgage credit banks) of 22 June 2000)
- Collateralisation as per the French law no. 2010-1249 of 22 October 2010 (SFH Law)

In any case, Eurex Clearing reserves the right to restrict the allocation of covered bonds by setting individual concentration limits per Clearing Member overruling the regular concentration limits. In addition, Eurex Clearing might charge higher margins where a close link combination is observed but mitigating actions, e.g. substitutions, are not possible.

Exclusion of all financial instruments that are issued by Deutsche Börse Group (e.g. Deutsche Börse AG shares and bonds, Xetra-Gold<sup>®</sup>) remains unchanged in order to eliminate potential macro-economic wrong-way risk effects.

### **Application of the rules**

Clearing Members are responsible to consider these provisions within any collateral allocation processes, including Securities Financing Transactions.

No Securities Financing Transaction must be executed for securities that do not fall under the exceptions. If such transactions have been historically traded, Eurex Clearing will contact the Clearing Member and demand an adequate risk premium for the respective transaction according to the risk evaluation of Eurex Clearing.

Eurex Clearing grants a two-month grace period in which the affected Clearing Members can prepare and successively substitute the ineligible securities. With the end of the grace period the rules as clarified in this circular become effective immediately.

If a Clearing Member assumes a deliverable security to be affected by one of the exceptions, Eurex Clearing can be contacted to validate the eligibility as margin and principal collateral case-by-case.

Based on the presently allocated collateral securities the substitution is expected to have low market impact.

A list of admissible securities is available for download on the Eurex Clearing website [www.eurexclearing.com](http://www.eurexclearing.com) under the link:

#### **Collateral Management > Securities collateral**

The Clearing Conditions for Eurex Clearing AG are available on the Eurex website under the link:

#### **Resources > Rules and Regulations > Clearing Conditions**

Should you have any questions please contact Risk Control at tel. +49-69-211-1 24 52.

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