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eurex clearing *circular 041/10*

Date: Frankfurt, June 17, 2010
Recipients: All Clearing Members of Eurex Clearing AG and Vendors
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High priority

Introduction of an additional Yield Shift Component for not same-day Collateral Prices to calculate dynamic Haircuts

Related Eurex Circulars: 167/04, 181/04

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Content may be most important for:	**Attachments:**
➲ Middle + Backoffice ➲ Auditing/Security Coordination	none

Summary:

In order to guarantee a high degree of security Eurex Clearing AG protects itself against default risk of all its Clearing Members. Most important element in this context is the firm management of collateral deposited by Clearing Members.

With effect from end-of-day processing on **June 30, 2010,** Eurex Clearing AG will further optimize daily evaluation of the collateral pool by extending the dynamic haircuts calculation for bonds by means of a yield shift component which takes into account the age of the last price for eligible bonds.

The enhancement of methodology follows consultations with the banking supervision in order to safeguard, within the framework of solvency supervision, zero-weighting of positions vis-à-vis Eurex Clearing AG also in the future.

This circular explains details of the adjustment for collateral yield shift calculation and describes dynamic haircut adjustment in case of collateral prices which are not from the same day.

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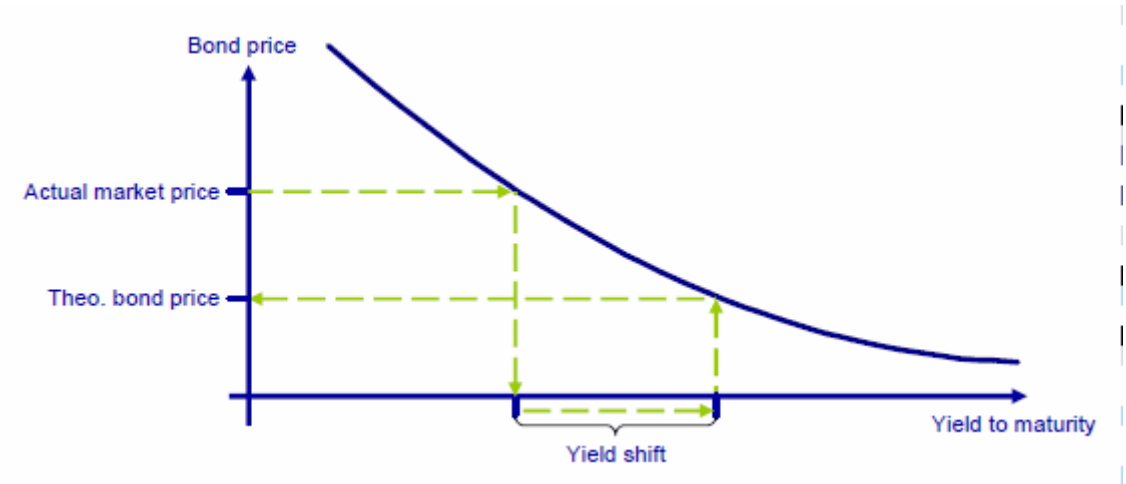
Consultations with banking supervision resulted in the necessity to enhance the evaluation method of collateral in case collateral prices are not from the same day. This becomes necessary in particular in order to safeguard, within the framework of solvency supervision, zero-weighting for positions vis-à-vis Eurex Clearing AG also in the future and to guarantee integrity of the risk model.

Based on this requirement, Eurex Clearing AG will introduce with end-of-day processing on June 30, 2010 an approach to increase gradually the yield shift for bonds with a collateral price which is not from the same day in order to meet price risk adequately. For this purpose an additional factor (multiplier) will be introduced in addition to the calculation method of dynamic haircuts (see Eurex circular 167/04). This factor increases gradually the applied yield shift depending on the age of the respective collateral price (see table 1). The dynamic haircut for bonds which is calculated anew every day in consideration of the remaining time to maturity of each bond, is displayed in report CD031 (Daily Securities Valuation) made available every day both in text- and XML format.

Table 1 (factors for yield shift increase):

Age of Collateral Price	Factor / Yield Shift Multiplier
same day	1.0
1 day	1.4
2 days	1.8
3 days	2.0
4 days and older	2.3

Excursus: Method for calculation of dynamic haircut



The used formula is:

Haircut = (ΔB / B) = - D * Δy / (1 + y / k) = (B (y + Δy) – B (y)) / B (y)

ΔB = Delta B, small absolute change of the current bond price

B = current bond price

D = Duration

Δy = Delta yield, small change of yield to maturity (in % / 100)

y = yield to maturity (in % / 100)

k = number of coupons per year

The term D / (1 + y / k) is called Modified Duration.

ΔB / B is the relative change of the current bond price and therefore the searched-for haircut.

For any questions you may have please contact the Risk Operations team at tel. +49-69-211-1 24 52 or e-mail: risk@eurexchange.com.

Frankfurt, June 17, 2010