clear to trade

eurex clearing
rundschreiben 105/13

Datum: 18. September 2013
Empfänger: Alle Clearing-Mitglieder der Eurex Clearing AG, alle Handelsteilnehmer der Eurex Deutschland und Eurex Zürich sowie Vendoren
Autorisiert von: Heike Eckert

⚠ **Aktion erforderlich** ⚠ **Hohe Priorität**

FX-Produkte: Erforderlicher Abwicklungsprozess bei physischer Lieferung über CLS

Verweis auf Eurex Clearing-Rundschreiben: 094/13

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Kontakt: Peter Sack, Clearing Product Design, T +49-69-211-1 53 16, peter.sack@eurexclearing.com

Zielgruppe:

➲ Alle Abteilungen

Anhang:
FX Products Settlement Process Description
(nur in englischer Sprache)

Zusammenfassung:

Der Vorstand der Eurex Clearing und die Geschäftsführungen der Eurex Deutschland und der Eurex Zürich haben beschlossen, FX-Futures und FX-Optionen auf zunächst sechs Währungspaare (EURUSD, EURCHF, EURGBP, GBPUSD, GBPCHF, USDCHF) mit Wirkung zum **7. Oktober 2013** einzuführen.

Das Clearing von FX-Futures und FX-Optionen unterliegt der Genehmigung des Aufsichtsrats der Eurex Clearing. Die Konsultation des Risk Committee, erforderlich für die Genehmigung durch den Aufsichtsrat, hat bereits erfolgreich stattgefunden. Die Genehmigung des Aufsichtsrats wird für Ende September 2013 erwartet.

Dieses Rundschreiben liefert weitere Informationen zum CLS-Abwicklungsprozess von Eurex FX-Futures und FX-Optionen.

FX-Produkte: Erforderlicher Abwicklungsprozess bei physischer Lieferung über CLS

Der Vorstand der Eurex Clearing und die Geschäftsführungen der Eurex Deutschland und der Eurex Zürich haben beschlossen, FX-Futures und FX-Optionen auf zunächst sechs Währungspaare (EURUSD, EURCHF, EURGBP, GBPUSD, GBPCHF, USDCHF) mit Wirkung zum 7. Oktober 2013 einzuführen.

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Die FX-Derivate werden über das Multiwährungs-Abwicklungssystem Continuous Linked Settlement (CLS) physisch geliefert.

CLS verringert das Abwicklungsrisiko ihrer Teilnehmer in FX-Transaktionen durch die zeitgleiche Abwicklung beider Teilgeschäfte („Legs“) der FX-Transaktion. Eine in CLS abgewickelte Transaktion ist final und unwiderruflich.

Weitere Details zum CLS-Abwicklungsprozess von Eurex FX-Futures und -Optionen sind im Anhang zu diesem Rundschreiben enthalten.

Formale Anforderungen für Clearing-Mitglieder (CMs)

Vor Beginn von Handel und Abwicklung der FX_Produkte müssen die CMs die folgenden Formulare einreichen:

- **Clearing-Vereinbarung**
- **Antrag auf Einrichtung/Löschung/Änderung von Wertpapierdepots und Clearer-Geldkonten**
  Bitte beachten Sie beim Ausfüllen des Formulars, insbesondere die folgenden Angaben zu machen:
  - BIC des Kontoinhabers,
  - BIC des adressierten CLS-Kontos,
  - SWIFT-Adresse des Kontoinhabers.
- **Application to participate in FX Trading (darin: Antrag auf Teilnahme am Handel der Eurex FX-Futures-Optionen)**
  Erforderlich für CMs, die Clearing für Nicht-Clearing-Mitglieder (NCMs) anbieten und gleichzeitig Handelsteilnehmer in diesen Produkten sind.
- **NCM/RC/CM Clearing Vereinbarung für das Grund-Clearingmodell**
  Bitte ausfüllen, falls zutreffend
- **NCM/CM Clearing-Vereinbarung für das Net Omnibus-Clearingmodell**
  Bitte ausfüllen, falls zutreffend
- **Clearing-Vereinbarung für das Individual-Clearingmodell basierend auf einer Eurex Clearing AG Dokumentation**
  Bitte ausfüllen, falls zutreffend
- **Nutzung von Konten**
  Bitte ausfüllen, wenn das CM als Korrespondenzbank für CLS einen Drittanbieter nutzt.

Die genannten Formulare stehen auf der Eurex Clearing-Website www.eurexclearing.com unter dem folgenden Link zum Herunterladen zur Verfügung und sind ab dem 7. Oktober 2013 gültig:

Ressourcen > Formulare

Technische Anforderungen

Als technische Voraussetzung für die Teilnahme am Clearing von FX-Produkten ist es erforderlich, einen sogenannten „RMA-Service" („SWIFT Relation Management Application") und eine geschlossene Benutzergruppe für SWIFT („SWIFT Closed User Group") einzurichten.

Wie im Anhang beschrieben, erhalten CMs die jeweiligen Eurex Clearing-Reports und SWIFT-Nachrichten mit den entsprechenden Währungspaaren für die Abwicklung im CLS-System. Damit Eurex Clearing die MT300-Nachrichten an die CMs senden kann, müssen die folgenden systembezogenen Anforderungen erfüllt sein:

Die IT-SWIFT-Abteilung des CMs muss den technischen Setup durchgeführt haben. Im ersten Schritt muss dafür der RMA-Service zwischen Eurex Clearing und dem CM aufgesetzt werden. Dies geschieht durch den Austausch des „RMA-Schlüssels" („RMA key"). Der RMA-Schlüssel verwaltet die Geschäftsbeziehung und Adressen zwischen zwei SWIFT-Teilnehmern.

Zusätzlich muss jedes CM über seine IT-SWIFT-Abteilung sicherstellen, dass die geschlossene Benutzergruppe bei SWIFT eingerichtet wurde und MT300-Nachrichten empfangen werden können. Wenn alle Anforderungen erfüllt wurden, können MT300-Nachrichten sowie CLS-Lieferinstruktionen und -bestätigungen über das SWIFT-Netzwerk übertragen werden.

Wenn Sie Fragen bezüglich des technischen Setup haben, wenden Sie sich bitte an Ernst Karbe unter Tel. +49-69-211-1 54 88 oder E-Mail: ernst.karbe@eurexclearing.com.

Bei Fragen zur Teilnahme am neuen Serviceangebot kontaktieren Sie bitte Ihren Key Account Manager.

18. September 2013

FX products: Settlement process description

Process

Trading of FX futures and options results in physical delivery once a month (payment vs. payment):

- T+2 days after the third Wednesday of the contract month (value date “S”),
- options are European style.

FX futures that have not been closed out before expiration and FX options that have been exercised and assigned at expiration date result in physical delivery of the corresponding currencies.

Potential payments are summarized out of the relevant futures and options positions per account analogue to the following Eurex reports:

CE050 “Expiration Payment vs. Payment” (exercised and assigned option positions as well as notified and allocated future positions which are going in delivery) and

CE051 “FX Transactions & Instructions” (delivery instructions effectively resulting from this with appropriate settlement status):

- summarized on currency rate (final settlement price for futures, strike price for Put/Call options) for each currency pair,
- consolidated per Clearing Member (CM) and Non-Clearing Member (NCM) as well as per segregated customer.

Final payment instructions are generated by Eurex Clearing’s Cash Management Engine for transmission to Continuous Linked Settlement (CLS) via a CLS third-party service provider:

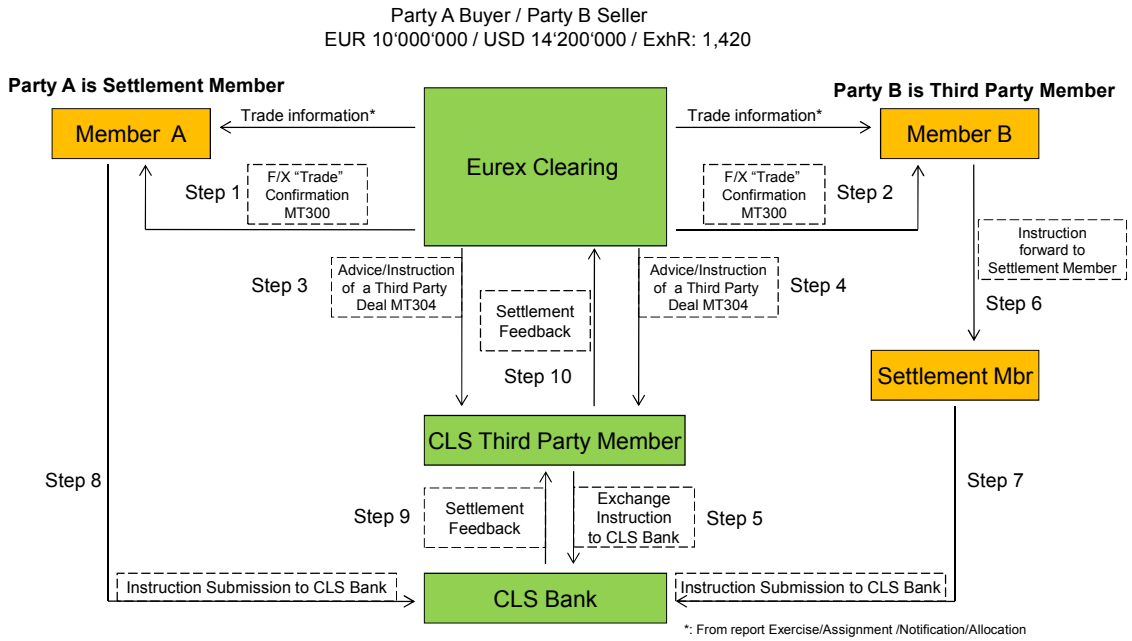
- subject to requirements of the CLS third-party service provider (related to CLS rules),
- Eurex Clearing´s instructions (MT304) are sent to Eurex Clearing’s CLS third-party service provider,
- results are sent via SWIFT as F/X “Trade” Confirmation MT300 to the CM for information and further processing by the CM.

Each Eurex Clearing Member participating in clearing of the product group “FX products” needs to instruct the mirror settlement instructions via SWIFT to obtain mandatory matching of settlement instructions:

- Eurex Clearing delivers templates via the F/X “Trade” Confirmation MT300 to the CM,
- The CM must instruct matching instructions to match Eurex Clearing’s MT304 instructions,
- Eurex Clearing submits all CLS-eligible trades with its BIC EUXCDEFZXXX
- MT300 for Settlement Member of CLS must have the following information in field 82A: EUXCDEFZXXX, after field 32B: the field 56A: CLSBUS33XXX and field 57A: MIDLGB22XXX (CLS third-party service provider of Eurex) also after field 33B: field 57A: CLSBUS33XXX.
- MT300 for a CM’s third-party service provider must quote in field 82A: EUXCDEFZXXX and after field 32B: field 56A: CLSBUS33XXX and field 57A: MIDLGB22XXX (CLS third-party service provider of Eurex) and after field 33B: the field 56A: CLSBUS33XXX and 57A: with the BIC of the CLS Settlement Member which provides the third-party service for the CM.

Please see the settlement procedure message flow in the following diagram:

Settlement Procedure - Message Flow



Step 1: Eurex Clearing sends F/X "Trade" Confirmations - MT300 messages - for information to Member A, who is a Settlement Member at CLS. These messages are in line with corresponding Eurex report RPTCE051.

Step 2: Eurex Clearing sends F/X "Trade" Confirmations - MT300 messages - for information to Member B, who is not a Settlement Member at CLS, but uses a Settlement Member as a third-party service provider. These instructions must be forwarded to the Settlement Member (step 6) but can also directly be sent to the Settlement Member (instead of step 2). These messages are in line with the corresponding Eurex report RPTCE051.

Step 3: Eurex Clearing sends MT304 messages to its third-party service provider, who is a Settlement Member at CLS, as settlement instructions for Member A as one counterparty.

Step 4: Eurex Clearing sends MT304 messages to its third-party service provider, who is a Settlement Member at CLS as settlement instructions for Member B as the other counterparty.

Step 5: The third-party service provider sends all instructions received from Eurex Clearing to CLS.

Step 6: see step 2.

Step 7: The Settlement Member of Member B instructs the corresponding instructions into the CLS system to match them with Eurex Clearing's instructions.

Step 8: Member A instructs the corresponding instructions into the CLS system to match them with Eurex Clearing's instructions.

Step 9: The third-party service provider receives the confirmation of settlement from CLS and books the corresponding payments on the relevant currency accounts for Eurex Clearing.

Step 10: Eurex Clearing receives the confirmations from its third-party service provider to finalize physical delivery towards the involved CMs.

Steps 1 to 4 are performed overnight between the last trading day and S-1 (value date -1). Step 5 is performed early on S-1. Step 6 to 8 must be performed on S-1 by 23:00 CET the latest. Step 9 and 10 are performed on S (value date) after the CLS batch, at approx. 09:30 CET.

Afterwards, Eurex Clearing releases the margins held and the collateral pledged for the related FX futures and options positions.

Pre-requisite for trading of FX futures and options

Eurex Clearing requires all interested CMs to have a CLS connectivity in place. This can be achieved either by an own CLS Settlement Membership or through a CLS third-party service provider.

Without this infrastructure, CMs and their associated NCMs are not allowed to trade FX products.

Reports

Below is a sample of an **MT300** report for information to a CM which is a Settlement Member at CLS itself.
In this example, the CM bought Euro and sold U.S. dollar (EURUDS):

Swift Sender: Eurex Clearing	{1:F01EUXCDEFZAXXX0000000000}
Swift Receiver: Eurex Clearing Member	{2:I300CLRTDEFFXXXXN}{4:
:15A: New Sequence	:15A:
:20: Sender Reference	:20:TESTXXXX52657194
:21: Related Reference	:21:TESTXXXX52657194
:22A: Type of Operation	:22A:NEWT
:94A: Scope of Operation	:94A:AGNT
:22C: Common Reference	:22C:CLRTFF0131EUXCFZ
:82A: Party A	:82A:EUXCDEFZXXX
:87A: Party B	:87A:CLRTDEFFXXX
:15B: New Sequence	:15B:
:30T: Trade Date	:30T:20130816
:30V: Value Date	:30V:20130818
:36: Exchange Rate	:36:1,31
:32B: Currency & Amount – Bought	:32B:EUR10000000,
:56A: Intermediary	:56A:CLSBUS33XXX
:57A: Receiving Agent	:57A:MIDLGB22XXX
:33B: Currency & Amount – Sold	:33B:USD13100000,
:57A: Receiving Agent	:57A:CLSBUS33XXX

Below is the corresponding **MT304** report from Eurex Clearing to its third-party service provider HSBC.
In this example, the CM bought Euro and sold U.S. dollar (EURUDS):

Swift Sender: Eurex Clearing	{1:F01EUXCDEFZAXXX0198000673}
Swift Receiver: CLS Service Provider	{2:I304MIDLGB22XXXXXN}{4:
:15: New Sequence	:15A:
:20: Sender Reference	:20:TESTXXXX52657159
:21: Related Reference	:21:TESTXXXX52657159
:22A: Type of Operation	:22A:NEWT
:94A: Scope of Operation	:94A:ASET
:83D: Fund	:83D:NA
:82A: Fund Manager	:82A:EUXCDEFZXXX
:87A: Executing Broker	:87A:CLRTDEFFXXX
:15B: New Sequence	:15B:
:30T: Trade Date	:30T:20130816
:30V: Value Date	:30V:20130818

:36: Exchange Rate	:36:1,31
:32B: Currency & Amount – Bought	:32B:USD13100000,
:53A: Delivery Agent	:53A:CLRTDEFFXXX
:56A: Intermediary	:56A:CLSBUS33XXX
:57A: Receiving Agent	:57A:MIDLGB22XXX
:33B: Currency & Amount – Sold	:33B:EUR10000000,
:57A: Receiving Agent	:57A:CLSBUS33XXX

Below is the corresponding counterparty **MT300** for information to the CM which is not a Settlement Member at CLS itself, but uses a third-party service provider for its CLS business.
In this example, the CM sold Euro and bought U.S. dollar (EURUDS):

Swift Sender: Eurex Clearing	{1:F01EUXCDEFZAXXX0000000000}
Swift Receiver: Eurex Clearing Member	{2:I300ABCIDEFFXXXXN}{4:
:15A: New Sequence	:15A:
:20: Sender Reference	:20:TESTXXXX52657345
:21: Related Reference	:21:TESTXXXX52657345
:22A: Type of Operation	:22A:NEWT
:94A: Scope of Operation	:94A:AGNT
:22C: Common Reference	:22C:ABCIFF0131EUXCFZ
:82A: Party A	:82A:EUXCDEFZXXX
:87A: Party B	:87A:ABCIDEFFXXX
:15B: New Sequence	:15B:
:30T: Trade Date	:30T:20130816
:30V: Value Date	:30V:20130818
:36: Exchange Rate	:36:1,31
:32B: Currency & Amount – Bought	:32B:USD13100000,
:56A: Intermediary	:56A:CLSBUS33XXX
:57A: Receiving Agent	:57A:MIDLGB22XXX
:33B: Currency & Amount – Sold	:33B:EUR10000000,
:56A: Intermediary	:56A:CLSBUS33XXX
:57A: Receiving Agent	:57A:COMMDEFFXXX

Below is the corresponding counterparty **MT304** from Eurex Clearing to its third-party service provider HSBC.
In this example, the CM sold Euro and bought U.S. dollar (EURUDS):

Swift Sender: Eurex Clearing	{1:F01EUXCDEFZAXXX0198000673}
Swift Receiver: CLS Service Provider	{2:I304MIDLGB22XXXXXN}{4:
:15: New Sequence	:15A:
:20: Sender Reference	:20:TESTXXXX52657321
:21: Related Reference	:21:TESTXXXX52657321
:22A: Type of Operation	:22A:NEWT
:94A: Scope of Operation	:94A:ASET
:83D: Fund	:83D:NA
:82A: Fund Manager	:82A:EUXCDEFZXXX
:87A: Executing Broker	:87A:ABCIDEFFXXX
:15B: New Sequence	:15B:
:30T: Trade Date	:30T:20130816
:30V: Value Date	:30V:20130818
:36: Exchange Rate	:36:1,31
:32B: Currency & Amount – Bought	:32B:EUR10000000,
:53A: Delivery Agent	:53A:COMMDEFFXXX
:56A: Intermediary	:56A:CLSBUS33XXX
:57A: Receiving Agent	:57A:MIDLGB22XXX
:33B: Currency & Amount – Sold	:33B:USD13100000,
:56A: Intermediary	:56A:CLSBUS33XXX
:57A: Receiving Agent	:57A:COMMDEFXXX

Late delivery handling

Given that CLS runs only one settlement cycle and CMs have to input their own instructions into CLS, there may be failure to settlement in CLS. In such cases, Eurex Clearing establishes a late delivery process to enable the settlement on value date after the CLS settlement cycle via its existing payment bank infrastructure. Nevertheless, the target is to settle in CLS. In exceptional cases, however, this late delivery process facilitates a clean-up on value date.

The following cases are considered in the process of handling late delivery:

- Members of Eurex Clearing or their third-party service providers have to submit an FX transaction to CLS; if transactions are not matched in CLS on S-1 by 23:00 CET, the latest, the FX transaction cannot be settled on value date and is therefore treated as “late“ by Eurex Clearing;
- Insufficient funding of the CM on the relevant CLS accounts (irrespective of any potential restrictions and penalties in CLS);
- Other reasons for delivery transactions not being matched and/or not being final after the batch run of CLS on settlement date;
- During the settlement process of FX delivery instructions, Eurex Clearing cancels all unmatched instructions in CLS on S-1 at 23:00 CET. These instructions are seen as “late” even before the CLS batch starts.

If a CM fails a CLS settlement, Eurex Clearing sets a non-automatic trigger event for the failing CM. If the CM confirms that it is able to remedy the termination event, Eurex Clearing may grant a grace period, which starts after the CLS batch on S. To remedy the “failure to pay”, Eurex Clearing runs a “late delivery handling”. The grace period is supposed to avoid termination of all positions for non-insolvency events. During this period, the CM may continue clearing as long as sufficient collateral is provided. If the CM is able to resolve the situation during this period, no close-out netting will be applied. If the CM is not able to resolve the situation during the grace period, the default handling applies, as described below.

Please note that Eurex Clearing identifies the causer of the failed delivery in CLS and applies the relevant fines. All other affected CMs have to follow the late delivery handling as well, irrelevant of all fines.

Additionally, settlement can fail during a CLS batch on S, if the CM has not provided sufficient funding on the relevant accounts debited by CLS.

From a functional point of view, both situations result in a failed delivery of FX instructions at CLS. During the grace period, the outstanding currency amount of each participant will be debited on the participants’ relevant payment bank/central bank account and transferred to the respective Eurex Clearing account of the particular payment bank/central bank.

The following accounts are affected for the respective currencies:

EUR	CHF	USD	GBP
Target2	SNB	Bank of America	Barclays plc
EuroSic	CHF SIC Account	Citibank N.A.	Citibank N.A. (London Branch)
		Deutsche Bank Trust Company Americas (DBTCA)	Deutsche Bank AG (London Branch)
		HSBC Bank USA N.A.	JP Morgan Chase N.A.
		JP Morgan Chase N.A.	HSBC Bank plc
			Royal Bank of Scotland plc

After successful debit, Eurex Clearing credits the relevant currency to the receiving participant. The same process is performed for each outstanding FX instruction on S via cash instructions by Eurex Clearing.

In its function as a Central Counterparty, Eurex Clearing uses funding functions of its third-party service provider within late delivery handling. This enables more efficient settlement of uncaused late deliveries of the CMs involved as counterparties.

Default handling

During the grace period, CMs can meet the delivery obligations, which failed in CLS. If this does not take place on S and the CM is not able to remedy the termination event, the automatic trigger event is set for the CM, i.e. the CM is in default and insolvency proceedings are opened. In case the CM files for bankruptcy before the final settlement of the FX products on the last trading day has taken place, the general default procedure of Eurex Clearing applies with the pre-defined close-out process. If the CM files for bankruptcy before the finality of the CLS settlement took place, the default handling described in the following will apply. Payments/settlements, which are confirmed within the relevant payment/settlement systems (e.g. CLS system) are finalized (per definition) and cannot unwind.

Default handling of derivative positions

Once the insolvency proceedings are opened, all derivatives positions of a defaulting CM are set to close-out netting (depending on the chosen segregation model).

Default handling of pending deliveries

If a CM with pending deliveries is in default, Eurex Clearing will step into the delivery process to guarantee delivery of the non-failing CM. The default CM will be closed-out in line with Eurex Clearing's existing procedures. In general, the non-failing CM has to credit Eurex Clearing's account at the particular payment bank.

If Eurex Clearing is not able to act on the spot market for any reason, cash settlement of the open positions has to be performed to close the pending deliveries on value date S.

Cash settlement

If physical delivery of a currency is not completed by 11:00 CET on settlement day, Eurex Clearing has the right to close the delivery obligation with a cash settlement whereby economical compensation of the "non-failing" CM is ensured. The failing CM has to cover potential losses of the cash settlement (defaulting CM by insolvency estate, or by the lines of defense of Eurex Clearing, respectively) and has to bear the respective penalties.

The cash settlement price is determined by the exchange rate price of the failed delivery instruction, i.e. final settlement price for futures and strike price for options. The announcement of cash settlement will be published only to the relevant parties by Eurex Clearing AG. The price of the covering trade has to be within the accepted price range which will be determined by the Clearing Conditions. If a necessary replacement FX deal cannot be finalized by Eurex Clearing on value date S, execution of the remaining deliveries will be performed/finalized on the next business day.

Determination of the cash settlement price if both Members fail to deliver

The cash settlement price for futures is based on the final settlement price determined on the last trading day. The cash settlement price for options is based on the final settlement price of the option underlying determined on the last trading day.

Determination of the cash settlement price if one leg (CM) fails

Settlement is based on the executed FX replacement transaction:

- If the FX replacement deal can be performed by one transaction, this price is used as the cash settlement price.
- If the FX replacement deal can be performed only by partial transactions, the cash settlement price is calculated based on the volume-weighted average price of the single transactions.

Boundaries of the price of the FX replacement deal

The price of the FX replacement deal is limited to the following upper and lower boundaries for futures and options transactions:

- Futures transaction: ±100 percent of the final settlement price.
- Options transaction: ±100 percent of the final settlement price of the underlying.

In relation to the delivered currency of the replacement deal, the reciprocal value of the final settlement price is used to calculate the boundaries (for quotation currency).

Risk

The standard Risk Based Margining method (RBM) is applied, i. e. one margin class is set up for each currency pair. The FX products will be integrated into Prisma at a later stage.

Products	Yesterday to Today		Today to Tomorrow	
	Premium Margin	Variation Margin	Additional Margin	Futures Spread Margin
FX Options	✓		✓	
FX Futures		✓	✓ for Non-Spreads	✓ for Spreads

For the option pricing model Garman Kohlhagen (technically Black 76) is used. Margin parameters (MP) are based on an EWMA (Exponentially-Weighted Moving Average) volatility (30 or 250 days) and on a liquidity factor:

- Assumption Holding Period 2 days,
- MP = $\text{Volatility}_{\text{EWMA 30d or 250d}}$ x Risk Factor x Liquidity Factor,
- The minimum margin parameter is set at 3.5 percent for non-CHF pairs and 5.5 percent for CHF pairs.

Minimum MP	EURUSD	GBPUSD	USDCHF	EURGBP	EURCHF	GBPCHF
MP [%]	3.5	3.5	5.5	3.5	5.5	5.5

Margin offsets are granted by margin class, i.e. for futures and options on the same currency pairs whereas they are not granted by margin group, i.e. for futures and options on different currency pairs (inherent risks in the settlement procedure). FX products are included in the Standard Clearing Fund. The margin requirement is valid until final settlement of the physical delivery (T+2). After expiration, only the additional margin is required.