clear to trade

eurex clearing *circular 079/12*

Date: 21 September 2012
Recipients: All Clearing Members of Eurex Clearing AG and Vendors
Authorized by: Thomas Book

⚠ **Action required** ⚠ **High priority**

Exclusion of close link securities as collateral

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Content may be most important for:

- Middle + Backoffice
- IT/System Administration
- Auditing/Security Coordination

Attachments:
None

Summary:

Effective **1 October 2012**, Eurex Clearing will introduce an automatic ex-post check to identify close link securities in order to exclude these collaterals from being provided as margin, clearing fund contributions and substitutes for company equity capital collateral. Eurex Clearing defines a close link as a direct relationship between members (Clearing Members, segregated Non-Clearing Members or segregated Registered Customers) and issuers of a security. A member is directly linked with an issuer by participation, i.e. by ownership, directly or by way of control, of 50 percent or more of the voting rights or capital of a company *or* by control, i.e. by the relationship between a parent company and a subsidiary, or a similar relationship between the member and a company.

In case of the members' insolvency or default, the value of close link securities may be negatively affected. By disallowing delivery of issues of affiliated companies, wrong way risk is mitigated and the collateral value is free of non-market risk impact.

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Aktiengesellschaft mit Sitz in Frankfurt/Main
HRB Nr. 44828
Amtsgericht Frankfurt/Main

Exclusion of close link securities as collateral

According to the Clearing Conditions for Eurex Clearing AG, Chapter I Section 3.2 (1) Eurex Clearing accepts securities in line with its "Admissible Securities" list published on the Eurex Clearing website as collateral for margin requirements, clearing fund contributions and company liable equity requirements. In order to mitigate wrong way risk (i.e., a risk which implies that a credit exposure to a counterparty is likely to increase when the creditworthiness of that counterparty is deteriorating), Eurex Clearing already automatically excludes provisioning of own issues as collateral from Clearing Members, segregated Non-Clearing Members or segregated Registered Customers.

Wrong way risk in the context of a clearinghouse can also materialise if there is a close link between the member and the issuer of securities provided as collateral. In case of the member's insolvency or default, the value of such close link securities is likely to be negatively affected.

Eurex Clearing defines a close link as a direct relationship between the member (Clearing Member, segregated Non-Clearing Member or segregated Registered Customer) and an issuer of a security. A member is directly linked with an issuer of a collateral security by:

a. participation, i.e. by ownership, directly or by way of control, of 50 percent or more of the voting rights or capital of a company, or by
b. control, i.e. by the relationship between a parent company and a subsidiary or a similar relationship between the member and a company.

In order to ensure a stable value of the collateral provided by a member and avoid risk exposure exceeding regular market risk impact in case of a member's insolvency, Eurex Clearing will not accept close link securities from a member as collateral to cover margin, clearing fund contributions or company capital obligations. Eurex Clearing's close link rules will be valid across all types of collateral covering the requirements of Eurex Clearing for all markets served.

To monitor members' close links, Eurex Clearing will run automatic ex-post checks of securities provided for the respective member. Eurex Clearing will react to violations by asking the respective member to substitute the securities not conforming to the close link rule immediately.

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