clear to trade

eurex clearing *circular 046/11*

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Recipients: All Clearing Members of Eurex Clearing AG and Vendors
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Limitation of Utilization of Own Issues in Repo Transactions

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Content may be most important for:

➲ All departments

Attachment:

Updated sections of Clearing Conditions for Eurex Clearing AG

Summary:

Effective **June 1, 2011**, Eurex Clearing will limit for repo transactions the utilization of collateral providers' own issues or exclude these repo transactions from clearing.

Limitation of Utilization of Own Issues in Repo Transactions

Effective June 1, 2011, Eurex Clearing will reject clearing of repo transactions in collateral providers' own issues or demand provision of additional margin to cover the extra risk.

Eurex Repo "Euro Market"

Eurex Clearing will reject clearing of trades in collateral providers' own issues as special repo transactions or trades in GC Basket repos. If trades in own issues have already been accepted for clearing by Eurex Clearing, Eurex Clearing may demand an adequate risk premium for the respective transaction according to the risk evaluation of Eurex Clearing. The regulation includes covered securities such as mortgage bonds.

However, the regulation excludes securities which are government guaranteed with the guaranteeing government having a minimum rating of "A-".

If securities become own issues during the term of the repo transaction (open repo), e.g. caused by a merger, the same regulation applies as for such repo transactions.

Eurex Repo "GC Pooling"

The GC Pooling ECB Basket (DE000A0AE077) currently allows collateral providers to use covered own issues as collateral for covering their exposures. Therefore, a transition period until November 30, 2011 will be granted for GC Pooling, during which the collateral providers' covered own issues will be accepted for the GC Pooling Baskets, as before.

After the end of the transition period, Eurex Clearing will no longer accept collateral providers' own issues. This regulation will also include covered securities such as mortgage bonds.

However, the regulation excludes securities which are government guaranteed with the guaranteeing government having a minimum rating of "A-".

The regulation is valid for all GC Pooling products, including the GC Pooling ECB Basket.

If securities become own issues during the term of the repo transaction (open repo), e.g. caused by a merger, the same regulation applies as for such repo transactions.

If a collateral taker receives his own issues in connection with a GC Pooling transaction, he can re-use them or pledge them, as before.

The regulation also implies that a Non-Clearing Member (NCM), in the position of a collateral provider, may not use its Clearing Members' (CM) own issues in repo-transactions. It would need to be regulated in an agreement between the CM and the NCM, whether or not the NCM is allowed to use his own issues as collateral provider in repo transactions.

May 17, 2011

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AMENDMENTS ARE MARKED AS FOLLOWS:
INSERTIONS ARE UNDERLINED
DELETIONS ARE CROSSED OUT

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[…]

Chapter IV Clearing of Transactions at Eurex Repo GmbH (Eurex Repo)

Part 1
General Provisions

[…]

1.2 Provision of Margin

(1) In connection with GC Pooling Repo transactions, the provision of margin (including the Additional Margin), with regard to the securities assigned within the scope of the Front-Leg, also in case of cross-border collateral provision, shall be calculated directly by Xemac of CBF. During calculation, Xemac shall, according to the provisions of the Special Conditions for Collateral Management ("SC Xemac"), consider the respective currency in which the underlying transaction has been concluded. Also, the securities admissible as securities serving as collateral in connection with the delivery of GC Pooling Repo transactions shall be determined by Xemac on basis of the Special Conditions for "SC Xemac". The possibility of requiring additional collateral pursuant to Chapter I Number 3.2, in particular for collaterlization of exchange rate risks in case of foreign currency transactions, remains unaffected. In particular, this applies for the collateralization of exchange rate risks in case of foreign currency transactions and as well for the delivery of securities as collateral which qualify as own issues in the meaning of the Terms and Conditions for Participation and Trading on Eurex Repo GmbH („GTC´s Repo") in relation to the Clearing Member. With regard to securities which become own issues during the term of the transaction, this provision also applies. The Clearing Members are obliged to refrain provisioning of such own securities as collateral. For the provision respectively collection of margin, the provisions of Chapter I Number 3.1 and 3.2 apply.

(2) With regard to GC Pooling Equity Repo transactions, Eurex Clearing AG shall – in deviation to Paragraph 1 Sentence 3 – define a list of equities included in the HDAX® which are eligible as securities serving as collateral ("eligibility list") and shall review such list on a monthly basis. The equities are admitted to this list in accordance with a catalogue of criteria which takes into account the turnover volumes and risk aspects. Any changes resulting from the regular review shall be announced by Eurex Clearing AG by way of electronic circular no later than 5 business days prior to their effectiveness. As a rule, such changes shall take effect on the 15th day of a calendar month. If such day is not a business day, the changes shall take effect on the next business day. Irrespective of the regular review, Eurex Clearing AG shall –

due to risk management reasons – be entitled at any time to exclude individual securities from the eligibility list with effect to the next business day. Such changes shall be announced to Clearing Members via the Eurex Clearing Newsboard at http://www.eurexchange.com/production_newsboards/eurex/newsboard_en.html. The eligibility list will be made available in Xemac on a daily basis.

Regarding the selection of securities serving as collateral to be transferred from the GC Pooling Equity Basket, concentration limits of Eurex Clearing AG shall apply.

To the extent a Clearing Member which has available an insufficient amount of eligible securities serving as collateral for the GC Pooling Equity Basket is instead allowed to transfer ownership of securities eligible for the GC Pooling ECB Basket, the rules for settlement of GC Pooling ECB Basket Repo transactions shall apply to such securities serving as collateral.

(3) In addition to the provisions of Paragraph 1 and 2, the provisions of Chapter I Part 3 shall apply with regard to the basic priniciples of the provision of margin and – unless aforementioned paragraphs state otherwise – the obligation to provide margin. The provisions of Paragraph 1 Sentence 4 – 9 apply to Special and GC Repo accordingly. In the case securities collateral are qualified as own issues after the settlement of the front leg, Eurex Clearing may apply an adequate haircut to cover a higher liquidation risk for Eurex Clearing AG. No automatic substitution is processed. With regard to Clearing Members according to Chapter IV Number 1.1.1 Paragraph 2, Eurex Clearing AG may decide – upon application and with the option of revoking such decision at any time – that the provisions of Chapter I Number 3.1 Paragraphs 1 to 8 and Number 3.2 shall not apply.

1.3 Setoff Procedure

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