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eurex clearing
circular 107/13

Date: 26 September 2013
Recipients: All EurexOTC Clear Clearing Members and Registered Customers of Eurex Clearing AG and Vendors
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EurexOTC Clear for Interest Rate Swaps: Introduction of EurexOTC Clear Release 3.0, product announcement for 2014

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Content may be most important for:
Ü All departments

Attachment:
EurexOTC Clear IRS Release 3.0 Information Schedule

Summary:

With EurexOTC Clear Release 3.0, Eurex Clearing will extend its EurexOTC Clear service for Interest Rate Swaps (IRS) by additional functions and services.

The details for the new release are as follows:

Release:	**EurexOTC Clear Release 3.0**
Start of simulation:	**15 October 2013**
Introduction date:	**18 November 2013**

Please note that the functions and services introduced with this release will have impact on interfaces of Eurex Clearing, such as the Eurex Clearing FpML Interface, and on reports.

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Main functional changes and enhancements

1. Extension of the EurexOTC Clear product range to IRS and Forward Rate Agreements (FRA) in the currency Japanese Yen (JPY)

Eurex Clearing is expanding its product range to IRS and FRA in the currency Japanese Yen (JPY).

The products which are eligible for clearing in Japanese Yen have the following characteristics:

Product	Currency	Maturity	Supported types	Rate index, rate tenor
IRS	JPY	Up to 30 years	Plain vanilla (fixed/float) Basis/tenor (float/float)	LIBOR 1m, 3m, 6m
FRA	JPY	Up to 2 years	Plain vanilla (fixed/float)	--

- Clearing Members, who would like to support Japanese Yen products, will need the following infrastructure for processing these products: An OTC IRS Clearing Member requires either a direct connection to a payment bank for JPY or uses a correspondent bank that has this connection.
- An OTC IRS Registered Customer, who wishes to clear these products via Eurex Clearing, requires a clearing relationship with a Clearing Member with the above-mentioned infrastructure.

Cash transactions are settled through the Japanese Yen accounts of the Clearing Members in at one of the following supported payment banks:

- Bank of Tokyo Mitsubishi,
- Sumitomo Mitsui Banking Corporation,
- Citibank Japan.

Clearing Members (CM) and Registered Customers (RCs), who wish to be activated for clearing of IRS and FRA products in Japanese Yen must provide the following documents:

- CM/RC: EurexOTC Clear Interest Rate Derivative Static Data Form for Clearing-Members/ Registered Customers,
- CM: Application for Set-up/Deletion/Change of Securities Accounts and Clearer Cash Accounts,
- CM: Power of Attorney at one of the above-mentioned payment banks

The forms can be downloaded from Eurex Clearing's website www.eurexclearing.com under the following link:

Resources > Forms > Interest Rate Swaps

2. Risk enhancements

The main changes with respect to the risk methodology between the EurexOTC Clear IRS Releases 2.1 and 3.0 are:

- adjustments in the risk model to support products in the currency Japanese Yen,
- changes in risk model in preparation for cross-margining with fixed income derivatives:
  - changes in the risk measurement for liquidity adjustments (from "delta normal VaR" to "FHS VaR"),
  - Linear interpolation and extrapolation of liquidity factors,
- Extension of reports for improved reproducibility of margin amounts.

Report changes are described in the document "Report Manual Interest Rate Swaps (IRS) – Updated Version", which will be available by end of September 2013 together with sample reports. Details regarding above-mentioned changes can be found in chapters 3.4 and 3.5 of the document "EurexOTC Clear Risk Methodology Description Interest Rate Swaps (IRS)", which is published in the Member Section of the Eurex Clearing website www.eurexclearing.com under the following path:

Member Section > Clearing Resources > Releases > EurexOTC Clear > Interest Rate Swaps > IRS Release 3.0 > Functional Manuals

3. Collateral enhancements

Direct transfer of collateral

Today, the securities collateral transfer for ICM (Individual Clearing Model)-segregated clients is processed via a double title transfer:

- First title transfer: Segregated NCM/RC delivers collateral to the Clearing Member
- Second title transfer: Clearing Member forwards the collateral to the dedicated securities collateral account

Eurex Clearing will offer a service enhancement such that the segregated NCM/RC is enabled to deliver securities collateral directly to the dedicated securities collateral account. The withdrawal process will be entered by the Clearing Member as today whereas the securities collateral are delivered back to the NCM/RC account directly.

The service enhancement allows the Clearing Member to instruct Eurex Clearing to debit the NCM/RC's cash account directly. Hence, the cash account is to be maintained in the NCM/RC's master data accordingly. If the client wishes to participate in this offering, Eurex Clearing must hold a dedicated Power of Attorney to debit the NCM/RC account.

In case cash collateral should be released, the Clearing Member will request Eurex Clearing to credit the NCM/RC account directly. Validation of collateral balance and margin requirement remains unchanged.

Main technical changes and enhancements

1. Connection to the EurexOTC Clear Margin Calculator via FpML interface

Eurex Clearing extended its EurexOTC Clear Margin Calculator service with the possibility to access this service via an FpML based interface. This allows Members to send their client portfolios and obtain the resulting margin requirement. Thus, in order to access the Margin Calculator, Members can connect their backend systems directly to the Eurex Clearing backend.

Please note the following:

- As transport layer for the delivery of FpML messages AMQP (Advanced Message Queuing Protocol) or WebSphere MQ is used,
- Messages are defined in FpML 5.0 format,
- The service can be used by Clearing Members and Registered Customers
- Each participant can only process one portfolio at a time and the portfolio currently may not exceed 1,000 rows.

2. Technical enhancements and changes to the EurexOTC Clear interfaces

The technical interfaces, such as the Eurex Clearing FpML interface, the EurexOTC Clear GUI and OTC IRS reports will be adjusted with EurexOTC Clear Release 3.0 to support the aforementioned enhancements. For more information, please refer to the relevant functional and technical documents for EurexOTC Release 3.0, which will be published in the Member Section of the Eurex Clearing website under the following path:

Member Section > Clearing Resources > Releases >
EurexOTC Clear Release > Interest Rate Swaps > IRS Release 3.0

Overview of published documents

An overview of documents which will be updated in connection with the introduction of EurexOTC Clear Release 3.0 can be found in the document “EurexOTC Clear IRS Release 3.0 Information Schedule“, which is attached to this circular. The document can also be downloaded from the Member Section of the Eurex Clearing website under the following path:

Member Section > Clearing Resources > Releases > EurexOTC Clear >
Interest Rate Swaps > IRS Release 3.0 > Functional Manuals

Daily availability of OTC IRS end of day reports in simulation

To support Members in their testing activities and due to strong member demand, Eurex Clearing will send out end-of-day reports also on non-batch days (that means every day from Monday to Friday), with the exception of report CC203 Variation Margin. This report and all other Eurex standard reports will continue to be generated only on batch days.

Product announcement for 2014

Zero Coupon Inflation Swaps

The introduction of Inflation Swaps is scheduled for April 2014 (EurexOTC Clear IRS Release 4.0). Introduction and release of these products will be done in close consultation with market participants and the respective Eurex Clearing Committees (Risk and OTC IRS Product Committees).

Inflation Swaps will have the following characteristics:

Product type	Zero Coupon Inflation Swap
Underlyings	HICPxT (euro zone) FRCPI (France) UKRPI (UK)
Start dates	Spot Starting (EUR/French: T+2d, UK: T+0d) Past Starting (novation) (Forward Starting not in scope)
Max. maturities	HICPxT/UKRPI: 50 years FRCPIx: 30 years (fractional maturities are allowed, e. g. 10 years and 3 months)
Indexing lags	2-12 whole months
Index levels	Monthly and daily interpolation
Market data	Broker quoted Par-Swap Rates Seasonality (monthly) Official index values from Bloomberg

More information about this product will be made available at a later date.

26 September 2013

EurexOTC Clear IRS Release 3.0 Information Schedule	Documents available at https://member.eurexclearing.com Clearing Resources > Releases > EurexOTC Clear > Interest Rate Swaps > IRS Release 3.0	Q III / 2013		Q IV / 2013		
		08/2013	09/2013	10/2013	11/2013	12/2013
Release Announcement EurexOTC Clear Release 3.0	–					
FpML Margin Calculator Interface Specification – Programming Version	Interfaces					
EurexOTC Clear Risk Methodology Description Interest Rate Swaps (IRS) - Preliminary Version	Functional Manuals					
EurexOTC Clear IRS Supported Product List	Functional Manuals					
Functional & Technical Release Notes	Functional Manuals					
Simulation Guide - Updated Version	Functional Manuals					
FpML API XSD and Samples (Current Version) for Simulation - Updated Version	Interfaces > FpML Interface XSD and Sample Messages					
Report Manual Interest Rate Swaps (IRS) - Updated Version	Technical Manuals					
Eurex Clearing FpML Interface Specifications - Updated Version	Technical Manuals					
Sample OTC IRS Reports - Updated and New Reports	Sample OTC IRS Reports					
EurexOTC Clear IRS GUI User Guide - Updated Version	Technical Manuals					
EurexOTC Clear Margin Calculator User Guide - Updated Version	Technical Manuals					
EurexOTC Clear Margin Calculator Product Template Field Description & Trade/portfolio template	Technical Manuals					
Simulation Period	–			Simulation	Permanent Simulation	
EurexOTC Clear IRS Procedures Manual - Updated Version	Functional Manuals					
EurexOTC Clear Risk Methodology Description Interest Rate Swaps (IRS) - Final Version	Functional Manuals					
Admission & Setup Forms - Updated Version	–					
Eurex Clearing Conditions OTC IRS - Updated Version	–					
Start of EurexOTC Clear IRS Release 3.0	–				☆	

- Timeline is subject to change -