



eurex clearing circular 098/13

Date: 6 September 2013
Recipients: All Clearing Members of Eurex Clearing AG and Vendors
Authorized by: Thomas Book

Introduction of Eurex Clearing Prisma Release 2.0

Contact: Stefan Krause, Trading & Clearing Services, T +49-69-211-1 96 10,
 Alexander Rose, Clearing Business Development, T +44-207-8 62-72 46

Content may be most important for:

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

Attachment:

Communication Calendar for Eurex Clearing Prisma Release 2.0

Summary:

On 27 May 2013, Eurex Clearing launched Eurex Clearing Prisma Release 1.0, the new state-of-the-art risk system. Applying a Portfolio Based Risk Management method, Eurex Clearing Prisma sets new industry standards in CCP risk management and improves market safety and integrity. With this circular, Eurex Clearing announces the introduction of Eurex Clearing Prisma Release 2.0. The scope of Release 2.0 will cover Fixed Income derivatives and will offer cross margining of Interest Rate Swaps and listed Fixed Income products. Eurex Clearing Prisma Release 2.0 will go into production on Monday, **26 May 2014**.

This circular provides detailed information regarding the extension of the product scope, the benefits of cross margining between listed Fixed Income (FI) products and products cleared through the EurexOTC Clear service for Interest Rate Swaps (IRS) and improvements of the methodology. Eurex Clearing announces the high-level implementation plan and communication calendar for the introduction of Eurex Clearing Prisma Release 2.0.

In order to help Clearing Members and interested clients to analyse cross margining benefits already before the implementation of Release 2.0, Eurex Clearing offers to carry out individual calculations for users of cross margining. For this prototype calculation service, Members may send a mixed portfolio of listed and OTC products to Eurex Clearing's service starting **30 September 2013**.



Introduction of Eurex Clearing Prisma Release 2.0

On 27 May 2013, Eurex Clearing launched Eurex Clearing Prisma Release 1.0, the new state-of-the-art risk system. Applying a Portfolio Based Risk Management method, Eurex Clearing Prisma sets new industry standards in CCP risk management and improves market safety and integrity. With this circular, Eurex Clearing announces the introduction of Eurex Clearing Prisma Release 2.0. The scope of Release 2.0 will cover Fixed Income derivatives and will offer cross margining of Interest Rate Swaps and listed Fixed Income products. Eurex Clearing Prisma Release 2.0 will go into production on Monday, 26 May 2014.

1. Scope of Eurex Clearing Prisma Release 2.0

Eurex Clearing Prisma Release 2.0 will extend and complement the risk management capabilities established with Eurex Clearing Prisma Release 1.0 in various dimensions:

- **Extended product scope:** Listed FI and Money Market (MM) derivatives will be included in the Eurex Clearing Prisma margin methodology.
- **Increased capital efficiencies:** Cross margining of OTC products cleared through the EurexOTC Clear for IRS service and listed FI products will be supported. An automatic Cross Margin Optimizer ensures that an optimal hedge ratio between listed and OTC products will be applied.
- **Improved methodology:** the risk methodology will be enhanced and improved to reflect the risks within a portfolio even more adequately.
- **Extended service offering:** The Margin Calculator provided within the EurexOTC Clear service will be extended to cover listed products, which are available within Eurex Clearing Prisma, enabling Members to estimate margin requirements for listed products, OTC positions and potential cross margin benefits.

1.1. Products included in Eurex Clearing Prisma

In addition to the products introduced in Release 1.0, the following products are in scope for Eurex Clearing Prisma Release 2.0:

- Futures on German debt securities (FGBS, FGBM, FGBL, FGBX),
- Futures on French debt securities (FOAM, FOAT),
- Futures on Italian debt securities (FBTS, FBTM, FBTP),
- Futures on Swiss debt securities (CONF),
- Money market futures (FEO1, FEU3),
- Options on futures on German debt securities (OGBS, OGBM, OGBL),
- Money market options (OEU3, OEUH, OEUM, OEUU, OEUZ),
- Options on futures on French debt securities (OOAT)¹.

In addition, products available for clearing within the EurexOTC Clear service for IRS can also be margined in Eurex Clearing Prisma. In this case, the products are considered for cross margining.

¹ Product will be launched on 10 September 2013.

1.2. Cross margining functionality for listed and OTC Products

In general, fixed income/money market listed products (FI/MM) and OTC IRS will be allocated to the same liquidation group, but will be assigned to separate liquidation group splits according to the liquidation horizons:

1. OTC IRS, 5-day liquidation period;
2. Listed FI and MM futures and futures options, 2-day liquidation period.

Depending on the Clearing Members' choice to apply cross margining, the Cross Margin Optimizer process will on a regular basis analyse a portfolio and allocate listed FI and MM products to the liquidation group split with the OTC IRS products, ensuring that an optimal margin allocation will be achieved within the portfolio.

Further details on the cross margining process and the cross margin optimization process can be found in the Eurex Clearing Prisma - Interest Rate Cross Margining Methodology, which is available in the Member Section of the Eurex Clearing website www.eurexclearing.com under the path:

Member Section > Clearing Resources > Eurex Clearing Prisma > Documents & Circulars > Documents Release 2.0

1.3. Changes in the Eurex Clearing Prisma methodology

The following smaller adjustments of the methodology will be implemented with Eurex Clearing Prisma Release 2.0: The calculation of the net present value (NPV) has been adapted in order to reflect the cross currency risks inherent in a portfolio more adequately. This calculation will be applied for futures and future style options. The aggregation of the compression error from position to liquidation group split will be performed in a more adequate way.

The rounding and precision of reported figures in the Transparency Enabler Files will be adapted to the precision of the internal calculation of margin figures. Therefore it is possible to replicate the margin figures with increased precision.

Further details on the changes in the Eurex Clearing Prisma methodology can be found in the Eurex Clearing Prisma - User Guide Methodology Description Release 2.0, which is available in the Member Section of the Eurex website under the following path:

Member Section > Clearing Resources > Eurex Clearing Prisma > Documents & Circulars > Documents Release 2.0

1.4. Extended service offering

The Margin Calculator provided in the context of the EurexOTC Clear service will be made available for listed products as well, enabling Members to estimate margin requirements for listed products, OTC positions and potential cross margin benefits. Further details on the Margin Calculator can be found in the EurexOTC Clear IRS Margin Calculator User Guide which is available in the Member Section of the Eurex Clearing website under the path:

Member Section > Clearing Resources > Releases > EurexOTC Clear > IRS Release 2.1 > Technical Manuals

In addition, new files will be provided within the Transparency Enabler files containing settlement prices for Prisma eligible products to replicate the changed NPV calculation and details to enable replication of the Cross Margin Optimizer. Existing files will be improved to simplify the margin replication of the Prisma methodology. The file structure and layout are described in the Eurex Clearing Prisma - User Guide Methodology Description Release 2.0 (see chapter 4.).

2. Preparation for Introduction of Eurex Clearing Prisma Release 2.0

2.1. Estimating the benefits of cross margining through prototype calculation service

Clearing Members who have positions in listed FI/MM and OTC products can select cross margining on account basis by using the Prisma Migration tool which is available in the Member Section of the Eurex Clearing website under the path:

Member Section > Clearing Resources > Eurex Clearing Prisma > Migration Tool

In order to help Clearing Members analyse cross margining benefits, Eurex Clearing offers to carry out individual calculations for users of cross margining. For this prototype calculation service, Members may send a mixed portfolio of listed and OTC products to Eurex Clearing's service starting 30 September 2013.

As of March 2014, the Margin Calculator will be extended to cover listed products as well (see chapter 1.4). From that time onwards, the Margin Calculator can be used to estimate and calculate cross margining benefits.

Further details on the process of submitting portfolios to Eurex Clearing's prototype calculation service and the required formats will follow shortly in a separate circular.

2.2. Impact for Members using cross margining

Members with positions in OTC IRS products and listed FI/MM products selecting cross margining should be aware that there will be changes to the content of the CC204 Overall Margin Report. OTC IRS products considered for cross margining are not shown in the CC204 report any longer. Instead, the margin figures for these products are reported within the respective Prisma margin reports, which are described in the Eurex Clearing Prisma Report Reference Manual, which is scheduled to be published in October 2013. Members selecting cross margining also need to ensure that the Liquidation Group for the FI and MM products is configured to be margined with the Eurex Clearing Prisma methodology.

2.3. Impact for Clearing Members already using Eurex Clearing Prisma

Clearing Members already migrated to Eurex Clearing Prisma can further benefit from the margin efficiencies that Eurex Clearing Prisma provides to its Members through the extended product scope. In order to utilize these benefits, Clearing Members need to switch the newly established Liquidation Groups for FI and MM products to the Prisma margin methodology in the Prisma Migration Tool. The tool can be downloaded from the Member Section of the Eurex Clearing website under the path:

Member Section > Clearing Resources > Eurex Clearing Prisma > Migration Tool

Please note that Eurex Clearing Prisma Release 2.0 will change the Transparency Enabler files, which are provided in order to replicate the margin calculations. These changes require corresponding software adaptations by Clearing Members and software vendors. For details on these changes, please refer to the Eurex Clearing Prisma User Guide Methodology Description, section 5.

In addition, there will be changes to the layout of some reports that will be produced by Eurex Clearing Prisma. These report changes will be described and documented in the Eurex Clearing Prisma Report Reference Manual which is scheduled to be published in October 2013.

3. Roll-out and Migration Approach

Eurex Clearing will launch Release 2.0 of Eurex Clearing Prisma on 26 May 2014.

Eurex Clearing Prisma Release 2.0 will be available in the simulation environment from 3 March 2014 onwards. This provides Members and software vendors with sufficient time to adjust their systems and processes in order to benefit from the increased capital efficiencies Eurex Clearing Prisma will provide to the

Members. The simulation phase starts with a so-called restricted simulation phase, which is intended for software vendors and in-house developers to test their software developments. Directly after the restricted simulation period, the official simulation will start on 31 March 2014 providing the full scope of Eurex Clearing Prisma to all Members for testing.

Further details on the Eurex Clearing Prisma Release 2.0 rollout schedule and the implementation in the technical and legal environments of Eurex Clearing will be provided over the next months according to the attached communication calendar.

4. Further Documentation

In connection with Eurex Clearing Prisma Release 2.0, the documents listed below are available in the Member Section of the Eurex Clearing website under the following path:

Member Section > Clearing Resources > Eurex Clearing Prisma > Documents & Circulars > Documents Release 2.0

Eurex Clearing Prisma – User Guide Methodology Description Release 2.0

The purpose of this document is to provide Clearing Members and software vendors with information necessary to enable them to recalculate the initial margin requirements according to the Eurex Clearing Prisma margin methodology. The document contains a description of the different margin components, the Transparency Enabler Files provided by Eurex Clearing and sample calculations of individual margin components. It also provides a step-by-step description of the complete sample calculation from the Excel file “Eurex Clearing Prisma – User Guide Sample Calculation Release 2.0” which has been published in the Member Section of the Eurex Clearing website together with this circular.

The version provided with this circular is the programming version, which means that the methods and parameters described in this document reflect the current state of the specification, but are still subject to change until the introduction of Eurex Clearing Prisma at the discretion of Eurex Clearing. Potential changes will be reflected in the final version.

Eurex Clearing Prisma - User Guide Interest Rate Cross Margining Methodology

This document describes the Interest Rate Cross Margining allocation approach and the following necessary steps in detail:

- Replication of the allocation of listed products, hedging of interest rate risk of IRS to the combined Interest Rate Swap and Fixed Income (IRS+FI) liquidation group split.
- Calculation of initial margin requirements for the combined IRS+FI liquidation group split.

The corresponding Excel file “Eurex Clearing Prisma – Interest Rate Cross Margining Methodology External Communication Tool” contains a sample calculation of Eurex Clearing Prisma including cross margin benefits, which is further explained in the User Guide.

The version provided with this circular is the programming version, which means that the methods and parameters described in this document reflect the current state of the specification, but are still subject to change until the introduction of Eurex Clearing Prisma at the discretion of Eurex Clearing. Potential changes will be reflected in the final version.

Eurex OTC Clear – Risk Methodology Description: Interest Rate Swaps (IRS)

This document explains the methodology for the replication of the initial margin figures for OTC IRS using the information provided by Eurex Clearing via other Transparency Enabler Files and the Clearing Members' portfolio data.

The latest version of this document is available for download in the Member Section of the Eurex Clearing website under the following path:

**Member Section > Clearing Resources > Releases > EurexOTC Clear > IRS Release 2.1 >
Functional Manuals**

If you have any questions, please contact Stefan Krause, Trading & Clearing Services, tel. +49-69-211-1 96 10 or e-mail: stefan.krause@eurexchange.com or Alexander Rose, Clearing Business Development, tel. +44-207-862-72 46 or e-mail: alexander.rose@eurexclearing.com,

6 September 2013

Eurex Clearing Prisma Release 2.0

Communication Calendar

	2013												2014			
	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
User Guides																
Eurex Clearing Prisma - User Guide Methodology Descr.							✓ (programming version)					◇ (final version)				
EurexOTC Clear Risk Methodology Description IRS				(R2.1) ✓		(R3.0) ◇		◇ (R4.0/R3.0 final)				◇ (R4.0 final)				
Eurex Clearing Prisma – User Guide IR Cross Margining							✓ (programming version)					◇ (final version)				
'Vendor Development Kit' listed products										◇			◇			
'Vendor Development Kit' Cross Margining										◇			◇			
Update Prisma Report Reference Manual										◇			◇			
Communication																
Presentation of Cross Margin Concept in Risk Committee		✓														
Announcement Circular and Communication Calendar							✓									
Information on production start															◇	
Continuous information to Clearing Members																
Simulation and Rollout																
Vendor Simulation																
Member Simulation																
Production Launch Prisma Release 2.0																◇
Member Onboarding Prisma Rel 2.0 (Cross Margining)																
Communication with ISVs																
Development Workshops																
Vendor Working Groups																

