clear to trade

eurex clearing *circular 103/12*

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Recipients: All Clearing Members of Eurex Clearing AG and Vendors
Authorized by: Jürg Spillmann

⚠ **High priority**

EurexOTC Clear: Direct debit service

Related Eurex Clearing circular: 092/12

Contact: OTC IRS Helpdesk, T +49-69-211-1 28 28, otcclear@eurexclearing.com

Content may be most important for:	**Attachments:**
➲ Front Office/Trading ➲ Middle + Backoffice	none

Summary:

With the start of EurexOTC Clear for Interest Rate Swaps, a direct debit service will be introduced, which collects money from Clearing Members' accounts at pre-defined points in time during the day, in order to settle margin requirements for non-novated OTC IRS trades and thereby increase novation efficiency.

Further information on this service is contained in this circular. Also, please refer to the document "EurexOTC Clear IRS Procedures Manual", which is available in the Member Section of the Eurex Clearing website eurexclearing.com under the following link:

Clearing Resources > Releases > EurexOTC Clear > Interest Rate Swaps > Functional Manuals

If you have any questions or require further information, please contact the EurexOTC Clear Helpdesk at tel. +49-69-211-1 28 28 or e-mail otcclear@eurexclearing.com.

Eurex Clearing AG
Mergenthalerallee 61
65760 Eschborn
Mailing address:
60485 Frankfurt/Main
Germany

T +49-69-211-1 17 00
F +49-69-211-1 17 01
memberservices@eurexclearing.com
Internet:
www.eurexclearing.com

Chairman of the Supervisory Board: Hugo Bänziger

Executive Board: Andreas Preuss (CEO), Jürg Spillmann, Thomas Book, Gary Katz, Michael Peters, Peter Reitz

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

EurexOTC Clear: Direct debit service

With the start of EurexOTC Clear for Interest Rate Swaps, a direct debit service will be introduced, which collects money from Clearing Members' accounts at pre-defined points in time during the day, in order to settle margin requirements for non-novated OTC IRS trades and thereby increase novation efficiency.

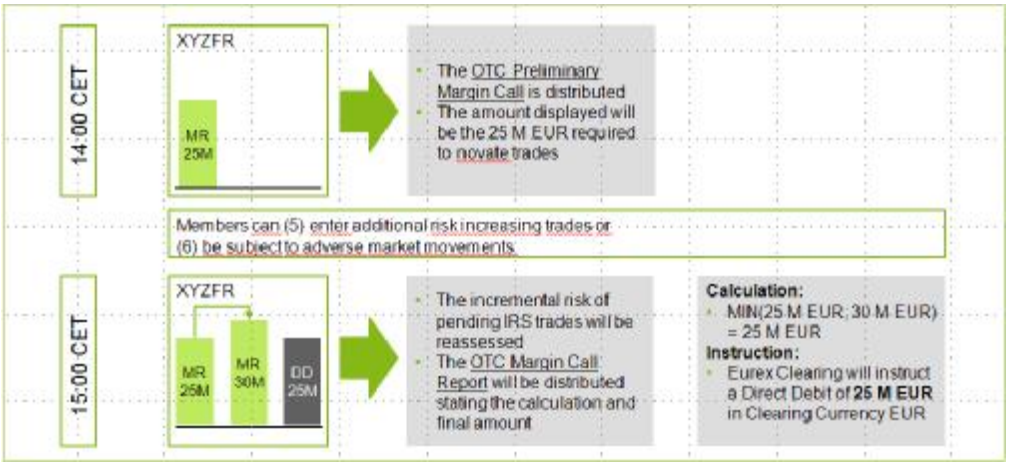
Intraday direct debit

During the day, at 12:00, 14:00 and 18:00 CET preliminary OTC Margin Call information is sent to the Clearing Members by means of the report CI206 ("Preliminary OTC Margin Call Report"). The report contains all information regarding non-novated trades which were already accepted by both Clearing Members but which lack sufficient margin to carry out novation.

One hour later (at 13:00, 15:00 and 19:00 CET), the incremental risk of the currently non-novated trades is re-calculated and the "OTC Margin Call Report" (CI207) is sent out. If need be, an OTC Margin Call is issued and instructed in the respective clearing currency. The OTC Margin Call is capped to the maximum direct debit amount contained in the "Preliminary OTC Margin Call Report". If the amount required for novation decreased within the last hour, the respective lower amount in proportion to the "Preliminary Margin Call Report" is automatically instructed by Eurex Clearing in the clearing currency. The Clearing Member must meet the payment without delay at the point in time the instruction of the OTC Margin Calls is issued, i.e. at 13:00, 15:00 or 19:00 CET.

Between the "Preliminary OTC Margin Call Report" (CI206) and the "OTC Margin Call Report" (CI207), Members have the possibility to make sure that sufficient coverage is available on their accounts as well as bringing risk-reducing transactions into novation or actively supplying own margin collateral.

The folowing example illustrates the intraday direct debit process:



If due to technical restrictions of the respective payment system, collection of margin requirements in the clearing currency is not possible, Eurex Clearing instructs the amount in question in U.S. dollar. Conversion takes place by means of the currency exchange rate published by Eurex Clearing including a cross-currency haircut. If on a given day both the payment system of the clearing currency and the U.S. dollar payment system are not available due to technical restrictions, the margin requirement is not automatically collected on this day.

Additionally, Eurex Clearing offers the possibility to actively remove transactions that are in novation via the EurexOTC Clear GUI. This procedure can be applied in order to prevent the OTC Margin Call and avoid non-fulfillment of a payment. Details on this functionality are contained in the document "Eurex OTC Clear IRS User Guide", chapter 8 Trade Rejection.

Overnight direct debit

For the end-of-day process, the OTC Margin Call Report CC207 is sent out based on the non-novated transactions at the end of the day at 22:00 CET. Outstanding payments are processed in the regular overnight payments on the following morning.

For fulfillment of payments, the same deadlines apply which are already valid today (i.e. 08:00 CET for Euro and 09:00 CET for Swiss francs).

Fulfillment and non-fulfillment of payments

Upon fulfillment of payments by the Clearing Member, additional collateral is added to the Clearing Members' "Standard Collateral Pool".

Pursuant to the Clearing Conditions for Eurex Clearing AG, (Chapter 1 Part 1 Number 7.2.1 (1)), in case of failure to pay, the termination event "failure to deliver margins" may apply and Eurex Clearing is authorized to designate a grace period to remedy the termination event. This grace period may be extended or the Clearing Member may be given a written termination notice.

In case of failure to pay, the account may be blocked on the Clearing Member's payment system, as long as the instruction issued by Eurex Clearing is still active.

„Trade novation"

Novation of pending transactions is not directly linked to fulfillment of payment of the OTC Margin Call. This is true for the "Intraday Direct Debit" and the "Overnight Direct Debit".

Accordingly, in case of fulfillment of the OTC Margin Call it may be the case that transactions pending for novation are not novated, if simultaneously the margin situation from already cleared trades develops in the opposite direction, e.g. caused by market price changes or newly taken up derivatives positions.

If you have any questions or require additional information, please contact the OTC IRS Helpdesk at tel. +49-69-211-1 28 28 or e-mail otcclear@eurexclearing.com.

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