clear to trade

eurex clearing *circular 055/12*

Date: July 4, 2012
Recipients: All Clearing Members of Eurex Clearing AG and Vendors
Authorized by: Thomas Book

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

Eurex Bonds and Eurex Repo Instruments: Change of Update Process for Margin Parameters effective July 9, 2012

Related Eurex Clearing Circular: 046/12

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Content may be most important for:

- Middle + Backoffice
- Auditing/Security Coordination

Attachments:

none

Summary:

As of end-of-day batch processing on **July 9, 2012**, Eurex Clearing will in the future carry out updating of margin parameters for bonds on a daily basis. The basic calculation method, however, will remain unchanged.

Along with the change of the update process of margin parameters for bonds, adjustments of the credit risk and market interest components and the liquidity factor will also take place.

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HRB Nr. 44828
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Eurex Bonds and Eurex Repo Instruments: Change of Update Process for Margin Parameters effective July 9, 2012

As of end-of-day batch processing on July 9, 2012, Eurex Clearing will in the future carry out updating of margin parameters for bonds on a daily basis. The basic calculation method, however, will remain unchanged.

Margin parameters define the maximum price fluctuation from one trading day to the next, i.e. in at least 99 percent of all cases, the price of the underlying instrument does not lie outside the predicted "margin interval".

The Margin Parameters are obtained with the following formula:

$$MP_i = \max\left\{MD_i \cdot \left(YRF + CRF_i\right) \cdot LF_i, MP^{\min}\right\}$$

Whereby:

MD_i … is the Modified Duration of bond i;

YRF … is the Yield Risk Factor to account for fluctuations in the risk-free interest rates;

CRF_i …is the Credit Risk Factor to account for issue specific credit risks;

LF_i … is the Liquidity Factor for bond i;

MP^{Min} …is the global Minimum Margin Parameter (currently: $MP^{Min} = 0.3\%$).

In this case, the global Yield Risk Factor (YRF) is calculated by the following formula:

$$YRF = \frac{\sum_j \left(MD_j - \overline{MD}\right) \cdot \left(MP_j - \overline{MP}\right)}{\sum_j \left(MD_i - \overline{MD}\right)^2}$$

Whereby:

MD_j …is the Modified Duration of the cheapest-to-deliver bond of a series of futures (CONF, FGBS, FGBM, FGBL, FGBX);

$\overline{MD}$ …is the Average Modified Duration of all bonds used in this calculation;

MP_j … is the Margin Parameter of related futures series which are calculated from the future historical volatility divided by the series reference price;

$\overline{MP}$ …is the average Margin Parameter of future series used in this calculation.

Due to the regular re-calculation of the modified duration, margin parameters may now change slightly on a daily basis. Publication of the changes will not take place via Eurex Clearing circulars.

Furthermore, the credit risk and market interest components and the liquidity factor will be adjusted in regular intervals or ad-hoc, if required. These re-evaluations will be communicated to Members via Eurex Clearing circulars or, in case of ad-hoc situations, per Newsboard Message.

Along with the change of the update process of margin parameters as of end-of-day batch processing on July 9, 2012, adjustments of the credit risk and market interest components and the liquidity factor will also take place.

The following table presents the current mapping of credit risk factor and liquidity factor:

Bond Type	Credit Risk Factor (Update 09.07.2012)		Liquidity Factor
Italian government bonds or Jumbos	Credit Spread^{Italy}	3,6995	1,4
Greece government bonds or Jumbos	Credit Spread^{Greece}	160,828	1,4
Spanish government bonds or Jumbos	Credit Spread^{Spain}	4,4717	1,4
Portuguese government bonds or Jumbos	Credit Spread^{Portugal}	7,8983	1,4
Irish government bonds or Jumbos	Credit Spread^{Ireland}	5,4048	1,4
Other government bonds or Jumbos	0	0	1,0
Italian corporate bonds	Max(Credit Spread^{Italy}, risk-free yield curve vs. EUR corporate bonds)	3,7242	1,4
Greece corporate bonds	Max(Credit Spread^{Greece}, risk-free yield curve vs. EUR corporate bonds)	160,828	1,4
Spanish corporate bonds	Max(Credit Spread^{Spain}, risk-free yield curve vs. EUR corporate bonds)	4,4717	1,4
Portuguese corporate bonds	Max(Credit Spread^{Portugal}, risk-free yield curve vs. EUR corporate bonds)	7,8983	1,4
Irish corporate bonds	Credit Spread^{Ireland}, risk-free yield curve vs. EUR corporate bonds)	5,4048	1,4
Other corporate bonds	risk-free yield curve vs. EUR corporate bonds	3,7242	1,0

Publication of the current margin parameters for Eurex Bonds and Eurex Repo instruments will remain unchanged. The parameters are published on the Eurex Clearing website www.eurexclearing.com under the following link:

http://www.eurexclearing.com/download/clearing/risk/MarginParameterBonds.xls

If you have any questions, please contact the Risk Operations Helpdesk at tel. +49-69-211-1 24 52 or e-mail to: risk@eurexclearing.com.

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