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e u r e x *circular 030/05*

Date: Frankfurt, March 3, 2005
Recipients: All Eurex members and vendors
Authorized by: Daniel Gisler

⚠ **High Priority**

Introduction of Euro GC Pooling® Repo

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Content may be most important for:

- Middle + Back Office
- Auditing / Security Coordination

Attachments:
Updated Chapter III of the Clearing Conditions for Eurex Clearing AG: Clearing of Transactions through the System of Eurex Repo

Summary:

In the course of the introduction of the Euro GC Pooling® Repo as a special form of a GC Repo on the trading platform of Eurex Repo GmbH please find attached the updated version of chapter III of the Clearing Conditions for Eurex Clearing AG. The changes were approved by the Executive Board of Eurex Clearing AG in its session on February 23, 2005 and will become effective on **March 17, 2005**.

Introduction of Euro GC Pooling® Repo

The essential changes to the Clearing Conditions can be summarized as follows:

- As a prerequisite for clearing Euro GC Pooling® Repo clearing members must have a technical connection to the Xemac® Collateral Management System of Clearstream Banking AG (CBF).
- Xemac® nets to a single amount per participant and basket all collateral requirements and entitlements which result from outstanding Euro GC Pooling® Repo transactions. This amount serves as basis for collateralization and security transfer to the party entitled to collateral. An offset of Euro GC Pooling® Repo transactions will be executed pursuant to the Clearing Conditions of Eurex Clearing AG.
- Delivery instructions with regard to existing delivery and payment obligations will be given by Eurex Clearing AG on the basis of the Xemac®-selected securities.
- The evaluation and adjustment of margin with regard to the securities provided in the front leg via transfer of ownership will be covered by the re-evaluation in Xemac®. The calculation and adjustment of margin for cash positions will be made by Eurex Clearing AG as today.
- The calculation of additional margin – for the Euro GC Pooling® Basket which at present is available for trading – will be made in Xemac® on the basis of the haircuts of the European Central Bank/Deutsche Bundesbank. CBF/Xemac® will deliver the necessary data to Eurex Clearing AG where it is entered in the appropriate margin reporting and collateral management.
- During an outstanding Euro GC Pooling® Repo the party providing collateral (security side) may initiate an exchange of the transferred securities against equivalent securities in its Xemac® securities pool (substitution). This will be processed by CBF/Xemac® and settled via Eurex Clearing AG.

The updated Clearing Conditions for Eurex Clearing AG will be available for download from the Eurex web-site as of March 17, 2005 under the following path:

www.eurexchange.com > Market Access > Rules & Regulations > Clearing Conditions

Should you have any questions or require more detailed information please contact one of the addresses indicated above. Please transmit this circular (including attachment) to the appropriate departments of your company.

Frankfurt, March 3, 2005

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[...]

III Chapter: Clearing of Transactions through the System of Eurex Repo GmbH

1 Part: General Provisions

If and to the extent that the clearing of transactions concluded through the System of Eurex Repo GmbH has been agreed upon between Eurex Clearing AG and Eurex Repo GmbH (in the following "Repo Transactions") or other, equivalent regulations have been reached, the provisions set forth in Chapter I shall also apply to the clearing of Repo Transactions, to the extent that the following rules do not provide otherwise.

1.1 Subpart: Clearing Licenses

1.1.1 Granting of Clearing Licenses

A Clearing License is required in order to participate in the clearing of Repo Transactions concluded through the System of Eurex Repo AG; Eurex Clearing AG shall grant such License upon written application. In all other respects, Chapter I subsection 1.1.1 paragraphs (2) and (3) shall apply mutatis mutandis. Upon request, central banks indicated by Eurex Clearing AG may be released wholly or partially from the obligation to meet the requirements pursuant to sentence 1 and Chapter III subsection 1.1.2.

1.1.2 Prerequisites for Clearing Licenses

(1) Prerequisite for a General Clearing License is a liable equity capital (haftendes Eigenkapital) of the applying institution in an amount determined by Eurex Clearing AG. For institutions beyond the scope of the KWG, own funds must be equivalent to the liable equity capital.

Prerequisite for a Direct Clearing License is a liable equity capital of the applying institution in an amount determined by Eurex Clearing AG. For institutions beyond the scope of the KWG, own funds must be equivalent to the liable equity capital.

When calculating the liable equity capital for granting a clearing license for clearing transactions carried out through the System of Eurex Repo GmbH in accordance with Chapter III, that equity capital shall be considered which the applicant has already provided evidence for when applying for a clearing license for clearing transactions carried out in accordance with Chapter I (Eurex Deutschland and Eurex Zürich) as well as for a clearing license for clearing transactions carried out in accordance with Chapter II (Eurex Bonds GmbH). The equity capital which the applicant has already provided evidence for when applying for a Clearing License for clearing transactions pursuant to Chapter IV (Frankfurt Stock Exchange) shall not be considered.

(2) The liable equity capital or equivalent own funds shall be calculated in accordance with the legal provisions in force in the country in which the institution is domiciled. Evidence for the amount of the liable equity capital or the equivalent own funds as of 31 December of every year (*Stichtag* - "Qualifying Date") shall, in an appropriate manner, be provided to Eurex Clearing AG not only together with the application but thereafter once every year during the Clearing Membership. Such yearly evidence of the liable equity capital or the equivalent own funds as of the Qualifying Date must be provided to Eurex Clearing AG by no later than 30 June of the year following the respective Qualifying Date. Any change in the liable equity capital or the equivalent own funds must be notified to Eurex Clearing AG immediately. Eurex Clearing AG may request such evidence at any time and may assign an auditor for verification of the liable equity capital or the equivalent own funds at the expense of the applying institution.

(3) Should the liable equity capital or the equivalent own funds of the applying institution not be sufficient for granting a clearing license, Chapter I, section 1.1.2, paragraph (2) shall apply mutatis mutandis.

(4) The applicant shall meet the following additional requirements:

(a) Evidence shall be provided for a pledged securities account with Clearstream Banking AG or SegaIntersettle AG.

(b) Evidence shall be provided for at least one securities account at a bank for central depository of securities which is recognized by Eurex Clearing AG or respectively at a Custodian or a Central Securities Depository. Upon written request by the applicant, Eurex Clearing AG may permit the applicant to use for the delivery of debt securities a securities account of one or more institutions recognized by Eurex Clearing AG in addition to or instead of an own securities account in accordance with sentence 1.

(c) Evidence shall be provided for an account at a branch of the Central Bank of Germany (Deutsche Bundesbank) through which the Clearing Member will settle its transactions at Eurex Repo GmbH; Eurex Clearing AG may allow the use of accounts of a correspondent bank recognised by Eurex Clearing AG for purposes of cash clearing with Eurex Clearing AG.

(d) Technical connection to the systems of Eurex Clearing AG and evidence shall be provided, in the event of participation in the clearing for Euro GC Pooling® Repo, for the possibility of utilization and technical connection to the Collateral Management System Xemac® of Clearstream Banking AG.

(e) The use of appropriate technical equipment (back-office facilities) to ensure the orderly recording, booking and supervision of all transactions, as well as the provision of margin and the calculation of margin requirements with respect to the customers pursuant to the minimum requirements of Eurex Clearing AG (clearing obligations); the Implementation Regulations of Eurex Deutschland and Eurex Zürich Concerning Technical Equipment shall apply mutatis mutandis in all other respects.

(f) During the business day of Eurex Clearing AG at least one sufficiently qualified member of staff must be present and available by telephone or fax at any time for the orderly fulfilment of the clearing obligations in the back-office.

(g) Payment of the contribution to the Clearing Fund pursuant to Chapter III subsection 1.1.6.

1.1.3 Conclusion of Transactions

(1) A Repo Transaction designates a purchase/sale of securities and their simultaneous forward resale/repurchase. Thus, it consists of a purchase agreement (“Front Leg”) and the simultaneous repurchase agreement (“Term Leg”) for securities at a set date.

(2) Repo Transactions through the System of Eurex Repo GmbH are only concluded between Eurex Clearing AG and an institution which holds a clearing license. If a Participant of Eurex Repo GmbH is not entitled to clearing itself (Non-Clearing Member), transactions can only be concluded via the General Clearing Member (Chapter I, subsection 1.2.7, paragraph (1)) or via the affiliated Direct Clearing Member (Chapter I, subsection 1.2.7, paragraph (2)) through which it will settle its transactions with Eurex Repo GmbH.

(3) If a Non-Clearing Member concludes a Repo Transaction through the system of Eurex Repo GmbH, a Repo Transaction is entered into between the Non-Clearing Member and the General Clearing Member or the affiliated Direct Clearing Member and, simultaneously, an equivalentRepo Transaction between the General Clearing Member or the affiliated Direct Clearing Member and Eurex Clearing AG.

1.1.4 Contract Obligations

(1) Clearing Members holding Direct Clearing Licenses are, pursuant to the detailed provisions of subsection 1.~~8~~9.4, required to honour all obligations resulting from the matching of orders or quotes ("Matching") entered into the system of Eurex Repo GmbH by themselves and affiliated Non-Clearing Members (Chapter I subsection 1.2.1 paragraph (2)).

(2) Clearing Members holding General Clearing Licenses are, pursuant to the detailed provisions of subsection 1.~~8~~9.2, required to honour all obligations resulting from the matching of orders or quotes entered into the system of Eurex Repo GmbH by themselves and affiliated Non-Clearing Members (Chapter I subsection 1.2.1 paragraph (2)).

1.1.5 Objections

Any objection to transactions that have been concluded through the System of Eurex Repo GmbH and have been transmitted for clearing to Eurex Clearing AG must be delivered to Eurex Repo GmbH in accordance with the General Terms and Conditions of Eurex Repo GmbH. In all other respects, Chapter I subsection 1.2.4 shall apply mutatis mutandis, provided that objections within the meaning of Chapter I, subsection 1.2.4 shall not be raised until the end of the pre-trading period of the following business day, at the latest, but until the beginning of trade on the following business day at Eurex Bonds GmbH, at the latest.

1.1.6 Clearing Fund

(1) The Clearing Fund set up by Eurex Clearing AG pursuant to Chapter I subsection 1.6.1 shall also serve to ensure the performance of all transactions concluded through the System of Eurex Repo GmbH which are cleared by Eurex Clearing AG.

(2) With respect to the amount of the contribution to the Clearing Fund to be provided pursuant to Chapter III subsection 1.1.2 paragraph (4) item g, Chapter I subsection 1.6.1.1 paragraph (1) shall apply mutatis mutandis. Such contribution to the Clearing Fund is not required in the event that the applicant has already paid a respective contribution to the Clearing Fund when applying for a Clearing License for clearing transactions within the meaning of Chapter I (Eurex Deutschland and Eurex Zürich) subsection 1.6.1.1 paragraph (1) and / or Chapter II (Eurex Bonds GmbH) subsection 1.1.5.

1.1.7 Business Days

The business days within the meaning of Chapter III shall generally be the business days determined by the Boards of Management of Eurex Repo GmbH.

2 Part: Settlement of Transactions through the System of Eurex Repo GmbH

2.1 Repo Transactions Concerned

(1) Eurex Clearing AG will realise the settlement or clearing of Repo Transactions ~~(GC Repo and Special Repo)~~ concluded through the System of Eurex Repo GmbH to the extent that the underlying securities of the respective Repo Transaction are settled by Eurex Clearing AG and the banks for central depository of securities recognised by Eurex Clearing AG or respectively by the Custodians or Central Securities Depositories and that the prerequisites pursuant to paragraph (2) are fulfilled.

2) Eurex Clearing AG shall determine in consultation with Eurex Repo GmbH, which kind of securities transactions that had been concluded on the trading platform of Eurex Repo GmbH shall be included in the Clearing. Clearing Members will be notified by circular as well as through electronic publication in the internet, available on the internet pages of Eurex Clearing AG (www.eurexchange.com), as regards those securities transactions that are included in the Clearing. In connection with Euro GC Pooling® Repo the notification for included securities shall be carried out in the Xemac® System of Clearstream Banking AG.

2.2 General Provisions

(1) Eurex Clearing AG shall be a contracting party to all deliveries and payments arising out of the settlement of Repo Transactions concluded through the System of Eurex Repo GmbH to the extent that these transactions comply with the provisions set forth in subsection 2.1

(2) Clearing Members must fulfil their delivery and payment obligations in accordance with the instructions of Eurex Clearing AG.

(3) The procedure for delivery and payment pursuant to paragraph (1) shall be governed by the following provisions:

a) Purchase Agreement (Front Leg):

All physical deliveries and payments shall be concurrently performed between the Clearing Member obligated to deliver and Eurex Clearing AG, and, accordingly, between Eurex Clearing AG and the Clearing Member which is to receive delivery on the agreed delivery day of the Front Leg. Physical deliveries shall be made through a bank for central depository of securities determined by Eurex Clearing AG or respectively through a Custodian or Central Securities Depository, and payments shall be made through the corresponding account determined by such bank for central depository of securities or respectively by such Custorian or Central Securities Depository.

b) Repurchase Agreement (Term Leg):

All physical deliveries and payments shall be concurrently performed between the Clearing Member obligated to deliver and Eurex Clearing AG, and, accordingly, between Eurex Clearing AG and the Clearing Member which is to receive delivery on the agreed delivery day of the Term Leg. Physical deliveries shall be made through a bank for central depository of securities determined by Eurex Clearing AG or respectively through a Custodian or Central Securities Depository, and payments shall be made through the corresponding account determined by such bank for central depository of securities or respectively by such Custorian or Central Securities Depository.

c) Physical Deliveries:

Eurex Clearing AG shall, with respect to the possession of the securities delivered to it pursuant to items a and b, act as an intermediary of the Clearing Members which are obligated to deliver in order to subsequently deliver such securities to the Clearing Members which are to receive delivery. With respect to the settlement of proprietary transactions of Clearing Members, the transfer of ownership in respect of the securities to be delivered will thus be performed directly between the Clearing Members involved.

d) Other Obligations:

Each Clearing Member and Eurex Clearing AG must ensure, through appropriate instruction to the respective bank for central depository of securities or respectively to the Custodian or Central Securities Depository, that transactions can be processed on the business day on which delivery and payment obligations have to be fulfilled. In the event of Euro GC Pooling® Repo transactions the assignment of delivery instructions concerning existing delivery and payment obligations shall be carried out by Eurex Clearing AG on the basis of the selection of securities to be delivered, effected by the Collateral Management System Xemac® of Clearstream Banking AG according to the Special Conditions for Collateral Management(SC Xemac®) in its respective valid version.The Clearing Members shall authorize Eurex Clearing AG, by providing the

appropriate power of attorney vis-à-vis the respective bank for central depository of securities or respectively the Custodian or Central Securities Depository, to give, release and transmit all delivery instructions in the name of the Clearing Member and binding for and against such Clearing Member and to supplement, change or cancel the delivery instructions necessary for the timely and correct fulfilment of its delivery and payment obligations vis-à-vis Eurex Clearing AG arising from transactions through the System of Eurex Repo GmbH. An obligation to provide the appropriate power of attorney exists also as regards to the execution of a substitution of securities which has been transferred as collateral in relation with an Euro GC Pooling® Repo transaction. All Clearing Members must ensure their ability to effect deliveries and payments thereof through sufficient deposits in the securities account with the respective bank for central depository of securities or respectively with the Custorian or Central Securities Depository and credit balances in the corresponding cash accounts.

(4) Chapter I Number 1.3.6 applies accordingly for securities delivered by the Clearing member in order to fulfil obligation deriving from transaction at Eurex Repo.

2.3 Daily Settlement

(1) For each delivery of the underlying security to the respective Repo Transaction which has not yet been performed, unrealized profits and losses will be daily determined on the basis of the current market prices and set off against the collateral provided. The amount of the collateral to be provided shall equal the difference between the price at which the transaction was concluded and the daily settlement price for such business day.

(2) The daily settlement price shall be determined by Eurex Clearing AG after close of trading and notified to the Clearing Members.

(3) For unfulfilled deliveries within the context of Euro GC Pooling® Repo transactions an evaluation ~~of selection~~ of the securities to be delivered will be performed by the Collateral Management System Xemac® of Clearstream Banking AG, according to SB Xemac® in its respective valid version, pursuant to paragraph 1and 2.

2.4 Margin Requirements

(1) The basic provisions for margin requirements with respect to positions in Repo Transactions are set forth in Chapter I subsection 1.3.1 paragraphs 1, 2, 4 and 5 as well as subsections 1.3.3 through 1.3.5. In addition thereto, paragraphs (2) to (4) shall apply.

(2) The margin requirements of a Clearing Member shall be calculated separately for Principal Position Accounts and Agent Position Accounts.

(3) The underlying cash and securities positions of the Repo Transaction shall be handled separately. Each cash position shall be calculated by discounting back the respective amount using the current market interest rate (calculation of the cash value on the valuation date). Each securities position shall be evaluated, after close of trading, on the basis of the current market rate including interests accrued.

(4) In addition to the margin required under paragraph (2), a further margin requirement ("Additional Margin") shall be calculated in an amount sufficient to cover any change to the cost of closing all deliveries not yet performed that cannot be netted in accordance with paragraph (2) assuming the least favourable price developments, as determined by Eurex Clearing AG, until the next calculation of the margin requirements.

(5) In connection with Euro GC Pooling Repo transactions, the calculation of the margin, including the Additional Margin referring to the securities transferred in the context of the Front Leg, takes place directly by the Collateral Management System Xemac® of Clearstream Banking AG. For calculation of the margin for cash positions the rules of paragraph 1- 4 apply. In other respects the rules of paragraph 1-4 shall apply, provided that in this paragraph no deviating procedures have been regulated.

2.5 Performance

(1) A delivery obligation arising out of a Repo Transaction can only be satisfied by the respective underlying securities.

(2) Eurex Clearing AG shall deliver the securities due for delivery to the Clearing Members entitled to delivery.

(3) Provided that for the fulfilment of delivery obligations of originally transferred securities, which have been transferred, within the context of the Term Leg of an Euro GC Pooling® Repo transaction, have been substituted during the term of the transaction~~s~~, these securities shall apply as underlying to the Repo transaction for the fulfillment of delivery obligations.

~~(3)~~(4) Paragraphs (1) ~~and~~to (~~2~~3) shall apply to the legal relationship between General Clearing Members or Direct Clearing Members and their Non-Clearing Members mutatis mutandis.

2.6 Payment of Interests (Coupon Compensation)

If interests are paid on the underlying security during the term of a Repo Transaction, e.g. during the Purchase Agreement and the Repurchase Agreement, Eurex Clearing AG shall arrange for the credit of the accrued amount of interests to the Clearing Member which has sold the respective securities. Besides, Eurex Clearing AG shall arrange for the charge of an amount equal to the amount of interests to the Clearing Member which has purchased the respective securities. Cash settlement shall be made through the account of the Clearing Members involved with the Central Bank of Germany - Main Office in Frankfurt / Main.

2.7 Default in Delivery or Payment

(1) Default in delivery shall be governed by the following procedure:

(a) Default on the delivery day of the Front Leg:

In the event that a Clearing Member which is obligated to deliver fails to transfer the underlying securities on the delivery day of the Front Leg of the respective Repo Transaction and pursuant to the instructions of Eurex Clearing AG, Eurex Clearing AG

shall be entitled or, on request of the Clearing Member which did not receive delivery in a timely manner, obligated to set the present business day, at the latest the delivery day of the Term Leg, as an advanced repurchase date of the Term Leg. As a consequence thereto, the mutual obligations arising out of the Repo Transaction which had originally been agreed upon, shall be offset against each other so that the parties, with the exception of the Repo interests agreed upon, do not owe each other any further payment or delivery. The payable Repo interests shall be calculated on the basis of the period of default, in each case for the period from the purchase date (inclusive) until the business day to which the Term Leg was advanced (exclusive).

At the same time, Eurex Clearing AG shall be entitled to set an earlier date as repurchase date for the Term Leg of the equivalent Repo Transaction concerned between Eurex Clearing AG and the Clearing Member which did not receive delivery from Eurex Clearing AG in a timely manner; the legal consequence thereof will be the same as described above.In connection with the delivery of Euro GC Pooling® Repo transactions the aforementioned procedure shall apply, if the Clearing Member obliged to deliver shall not dispose of the necessary bulk of securities, which are admissible for the delivery in the respective basket, on delivery day in its collateral pool within the Collateral Management System Xemac® .

Eurex Clearing AG shall be, if necessary, informed of this matter by Clearstream Banking AG.

(b) Default on the delivery day of the Term Leg

In the event that a Clearing Member which is obligated to deliver fails to deliver the underlying securities on the delivery day of the Term Leg of the respective Repo Transaction and pursuant to the instructions of Eurex Clearing AG, Eurex Clearing AG shall be entitled or, on request of the Clearing Member which did not receive delivery in a timely manner, obligated to make a replacement purchase with respect to the undelivered securities as from the fifth day following the delivery date of the Term Leg and to deliver these to the Clearing Member which did not receive delivery in a timely manner. Measures set forth in paragraph (1) shall be binding on and accepted as performance by the Clearing Member which did not receive delivery in a timely manner. Eurex Clearing AG may determine at its complete discretion how replacement purchases of securities are to be made and up to which maximum purchase price such securities may be purchased.

(2) Measures set forth in paragraph (1) shall be binding on and accepted by the Clearing Member which did not receive delivery in a timely manner.

(3) Any costs arising from the measures taken in accordance with paragraph (1) must be paid by the defaulting Clearing Member.

(4) In the event that the Clearing Member fails to provide the margin demanded for any business day or fails to pay when due a daily settlement payment or other fees in a timely manner, or if such Clearing Member has failed to fulfil any other obligation to Eurex Clearing AG arising under these Conditions, Chapter I subsections 1.7.1 through 1.8.1 shall apply mutatis mutandis.

(5) The right to claim further damages shall be excluded for Eurex Clearing AG as well as for the Clearing Member which did not receive delivery in a timely manner.

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