X-pand into the Future

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Introduction of a Central Counterparty (CCP) for Securities Traded on the Xetra Trading System of the Irish Stock Exchange

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Content may be most important for:

- Front Office + Trading
- Middle + Back Office
- Auditing / Security Coordination

Attachment:

Service Description

This circular contains information about planned enhancements of Central Counterparty (CCP) services provided by Eurex Clearing AG.

The Irish Stock Exchange (ISE), Euroclear/CRESTCo Limited and Deutsche Börse AG have jointly announced to introduce a Central Counterparty (CCP) to the Irish equity market. This Central Counterparty will support Irish equities, UK equities as well as Exchange Traded Funds (ETFs) denominated in euro, which are traded in the Xetra order book at the Irish Stock Exchange. It is envisaged that Eurex Clearing AG, which already offers CCP services to other markets, shall act as Central Counterparty.

The introduction date is currently planned for November 2005.

Primarily Trading Members at the Irish Stock Exchange and Clearing Members who are planning to provide clearing and settlement for Irish securities will be affected.

Please refer to the attached Service Description for further information.



DEUTSCHE BÖRSE GROUP

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A Central Counterparty for securities traded on the Irish Stock Exchange's order book

Service Description

21st March 2005

Important note
This document sets out the current position regarding the provision of settlement netting services within the central counterparty services for ISE Xetra, which is, as is in the nature of development projects, subject to change.

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Copies of this document can be downloaded in pdf format from the websites at www.ise.ie and www.crestco.co.uk.

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1 Executive summary

1.1 Background

The provision of a Central Counterparty (CCP) is becoming a feature of developed securities markets. The Irish Stock Exchange ("the Exchange"), CRESTCo Limited (CRESTCo), Deutsche Börse AG (DBAG) and Eurex Clearing AG (ECAG) have recently announced that they intend to provide a CCP service for securities traded on the ISE Xetra order book of the Exchange.

CRESTCo, part of the Euroclear group, has been the provider of settlement services to the Irish market since 1996. It is also the provider of settlement services in the UK market and was involved in the delivery of a CCP service to the UK market with LCH.Clearnet in 2001 and the Virt-x market in 2004.

Eurex Clearing AG is subsidiary of Eurex Frankfurt which is a 100% subsidiary of Eurex Zurich, which is owned by SWX and DBAG. The Exchange and Deutsche Börse entered into a strategic technology partnership in 2000 whereby DBAG operates as the host of the Exchange's electronic trading system, ISE Xetra. ECAG is the CCP to the German equities market as well as being the provider of clearing and risk management services to the Eurex derivatives' platform.

This document explains the impact that the introduction of a CCP to the Irish equities market will have on the market infrastructure and members. It also describes the steps that members need to take in order to gain the advantages that the CCP service will offer. Any changes recommended by recipients will be published in other documents as appropriate.

1.2 Benefits

Experience in other markets has shown that CCP arrangements enhance liquidity and reduce some risks for participants in the market, e.g. member default, while providing increased efficiencies in post-trade processing and treasury management. The key advantages of introducing a CCP in the Irish market are.

- Post-trade anonymity: the CCP will become the counterparty for all trades conducted on the order book. As such, the member firm submitting an order will be unaware of the identity of the counterparty on the other side of the trade as all trades will be settled against the CCP.

- Reduced counterparty risk: participants have reduced exposure to counterparty default as the CCP provider is effectively guaranteeing the settlement of all eligible trades. The cost of counterparty risk protection is based on the risk generated by the business transacted.

- Multilateral settlement netting: this is an optional feature of the CCP service for the Exchange. The principal long term benefit of netting is a reduction of costs to participants by facilitating a reduction in the scale of the back-office infrastructure. It also helps reduce the number of settlement transactions, thereby reducing settlement costs.

- Increased settlement efficiency: trades will appear rapidly in CREST enabling participants to maximise their settlement and matching performance as a result of a real-time feed from the Exchange into CREST.

- Increased liquidity: experience has repeatedly shown that the introduction of a CCP service enhances liquidity on electronic trading platforms. This has a beneficial impact on the quality of price formation and on the tightness of bid offer spreads.

2 Approach

The introduction of the CCP service is being managed as a joint project between CRESTCo, DBAG and the Exchange using the respective expertise of these parties in high volume processing and settlement, risk management and the operation of markets.

It is intended that the implementation of this service will utilise existing market infrastructure as much as possible in order to minimise:

- the cost to participants in the market;
- the time period to launch date; and
- the operational impact upon market participants.

A scalable CCP infrastructure with an open architecture will be built, to ensure that any future extension of the CCP service will result in minimum cost and inconvenience to the market.

2.1 Implementation principles

The following principles will guide the implementation of the Exchange's CCP service.

Minimal change for market participants
The benefits of the new CCP services should be delivered without significant changes to the systems or operating procedures of market participants or market infrastructure providers. Therefore, existing CCP services provided by CRESTCo and ECAG will be used as far as possible in order to minimise market disruption and time to market; this will help avoid major changes to position management and settlement netting processes. Settlement for the Irish equity market will remain within CREST.

Short time to market
As there is existing functionality and infrastructure in place between the Exchange, DBAG, ECAG and CRESTCo, the parties will co-operate fully to ensure that implementation will be completed within a short time frame.

Sound legal and regulatory framework
The clearing and settlement model will be delivered with full regulatory oversight from the relevant authorities in Ireland, the UK and Germany and will fulfil all the market infrastructure providers' regulatory obligations once operational.

Transparent and competitive pricing
The pricing model will be transparent and competitive. It will differentiate the various services, i.e. there will be a clear separation of trading, clearing and settlement fees, and so will allow for predictable and competitive pricing.

2.2 Project timeline

Throughout the project life cycle, members will be supported by business seminars and documents covering various aspects of the CCP's introduction, consultation on necessary rule changes, data exchange information, and the testing specification.

Various elements of the CCP service are being developed by the Exchange, DBAG, ECAG and CRESTCo. Once all parties have completed the development phases, they will undertake a period of end-to-end tri-party integration testing. Subsequently, members will be invited to partake in a period of trialling the new CCP product. This phase will allow members to follow pre-defined scripts to guide

them through the new clearing functions of the CCP, as well as to enact their own testing scenarios. Full support will provided by the Exchange, ECAG and CRESTCo.

The following timeline illustrates the proposed time to market of the new CCP infrastructure. The planned live date is November 2005.

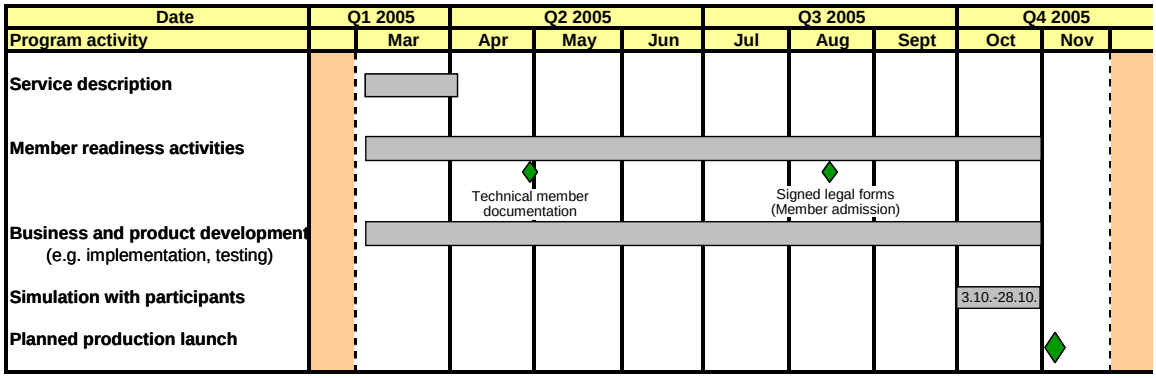


Figure 1: Project timeline overview

3 Service overview

3.1 Product scope

It is intended that the service will cover ISE Xetra order book trades in:

- Irish equities;
- Irish Exchange Traded Funds (ETFs); and
- UK equities[1]

denominated in EUR.

Bilaterally negotiated, off-order book trades will not be eligible for processing under the Exchange's CCP service.

3.2 The clearing and settlement model

The service is designed, as far as is possible and desirable, to enable market participants to continue to conduct business as they do currently, and in particular, to trade and settle using existing processes and infrastructure.

The following diagram shows the clearing and settlement model agreed between the Exchange, ECAG and CRESTCo.

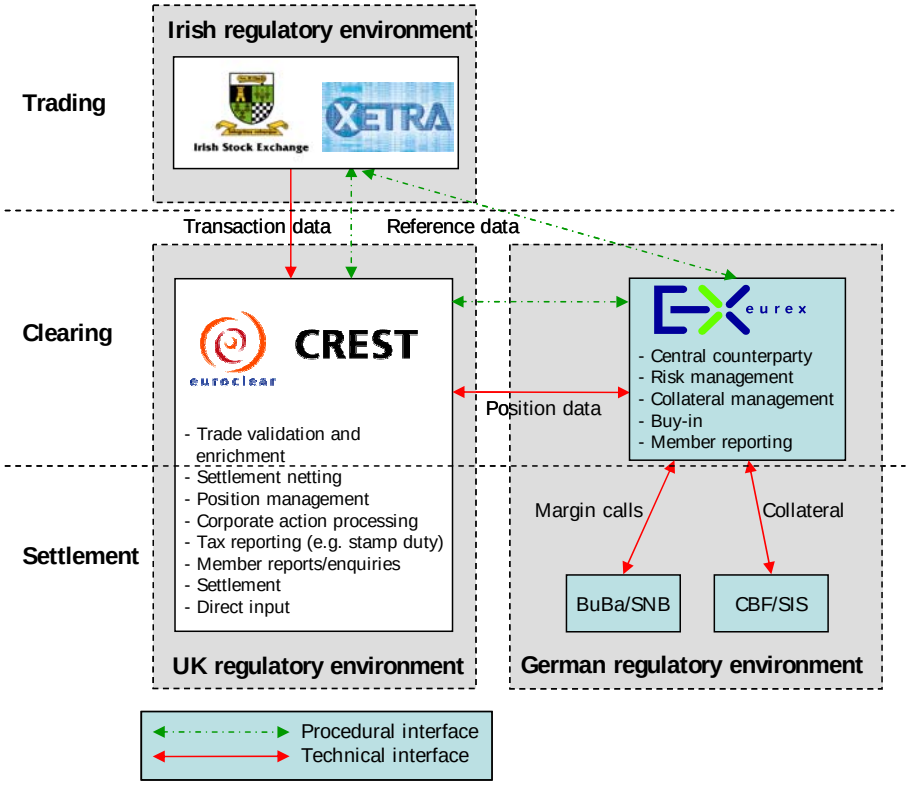


Figure 2: Clearing and settlement model

[1] Provision of a CCP service for UK equities is subject to SDRT exemption being granted by the UK Inland Revenue and the outcome of consultation with the FSA.

3.3 Life cycle of a trade

The Irish market operates with a standard settlement period of T+3.

The following figure shows the life cycle of an Exchange CCP eligible order book trade following the introduction of the CCP service. It illustrates the processing of one trade executed on a trade day of t. Other trades on the following days are not represented.

Business day	t	t+1	t+2	t+3
Irish Stock Exchange / XETRA	• Trade execution • Automatic trade reporting			
CREST / euroclear	• Validation • Enrichment • Direct input • Optional settlement netting			• Settlement
eurex	• Intra-day margin calculation • Intra-day margin call, if required	• Intra-day and end-of-day margin calculation • Margin call	• Intra-day and end-of-day margin calculation • Margin call	• Intra-day and end-of-day margin calculation • Margin call

Figure 3: Life cycle of an ISE Xetra trade

3.3.1 Trading

Exchange CCP eligible order book trades executed on ISE Xetra will always show ECAG as the counterparty instead of another trading member. Similarly, settlement will always be against ECAG as the CCP participant in CREST. Use of the CCP service will be mandatory for all eligible on order book trades. Eligible trades will be fed automatically to the CREST system from the ISE Xetra system.

ECAG will contractually become counterparty to all eligible trades by 'open offer' at the exact moment a trade is executed. Each execution confirmation will indicate ECAG as the buyer to every seller and as the seller to every buyer. There will not be any bilateral contract between executing member firms. In this way trading anonymity will be preserved.

3.3.2 Trade cancellation

Order book trades entered in error to ISE Xetra may be cancelled in accordance with the existing procedures as outlined in the Rules of the Exchange. All accepted cancellations will result in the generation of a contra instruction by the CCP which will effectively reverse the incorrect trade. Trade cancellations will be notified to the market in line with existing procedures on ISE Xetra.

For clearing purposes, the CCP will treat a contra as a separate transaction, i.e. the contra is created as an equal and opposite transaction to the underlying trade – it does not delete the underlying trade.

3.3.3 Clearing

The clearing process for a trade will result in the following lifecycle, which starts on trade date:

- incoming messages from ISE Xetra will be validated in order to ensure that they are eligible for CCP settlement. Ineligible trades will be rejected and investigated by CREST; in turn they may either be corrected and accepted or fully rejected by ECAG;
- the trade will be enriched with standard information required for settlement;
- two transactions will be centrally created for each execution on ISE Xetra, one between ECAG and the buyers nominated CREST participant, the other between ECAG and the sellers nominated CREST participant. The following direct input options will be mandated by ECAG rules:
    - gross transactions will always be created by direct input. Consequently, CREST participants will not be required to input a matching instruction with the CCP.
    - net transactions will always be created by direct input. Consequently, CREST participants that opt into netting will not be required to input a matching net instruction with the CCP.
- each transaction will be assessed for Irish stamp duty or stamp duty reserve tax (SDRT) and generate any necessary transaction reports for the Exchange and appropriate regulators.
- the open positions of clearing members will be updated in the open positions database maintained in CREST. This information will be made available to both the clearing members and ECAG to facilitate margin calculations;
- both transactions will be matched within CREST. Then:
    - for CREST participants that opt into settlement netting, the matched gross transaction will proceed into the netting process described in section 3.3.4
    - for CREST participants that do not take part in settlement netting, the matched gross transaction will proceed to a status of being ready for settlement without further participant input.

3.3.4 Settlement netting

Participants can opt into settlement netting for Exchange CCP eligible order book trades.

Where the member has opted into settlement netting, CREST will close down each gross transaction and incorporate it into a net settlement. At the end of the trading day the net will be finalised and a net settlement transaction created between the member and ECAG as CCP participant. The net settlement transaction will then be matched.

A net settlement transaction will combine gross transactions where the following characteristics are identical:

- clearing member through a single clearing account (agent or principal account);
- settlement participant and member account;
- TSO dealing capacity;
- settlement firm ID;

- currency of consideration;
- security and country of register;
- trade date;
- intended settlement date;
- nationality declaration, i.e. the country code indicating the nationality of the settlement participant;
- benefit status, i.e. 'cum' or 'ex'.

3.3.5 Settlement

The basic process of settlement will operate essentially unchanged from the current process. However please note that net settlements are still cash and stock movements with the CCP participant involved in each transaction.

3.3.6 Settlement management

Settlement efficiency will remain as important in the new CCP environment as it does today. Managing settlement fails will be achieved by a combination of the following methods:

- The CREST system permits unilateral splitting by either of the CREST members who are party to a delivery. To further maximise settlement performance an automated splitting functionality is available to CCP participants. ECAG as the CCP participant for Exchange securities will utilise the functionality. Consequently all gross or net transactions that include a securities delivery from the CCP participant will be eligible for auto splitting.

- CRESTCo currently operates a settlement discipline regime that fines participants with matching and settlement records below certain published thresholds. The regime provides incentives for members to meet an acceptable level of settlement performance. The relevant CCP eligible securities will be included in the settlement discipline regime, subject to the approval of the CRESTCo Board Settlement Discipline Committee.

- ECAG will use a buying-in regime to ensure the timely settlement of specific fails. The buying-in process will allow both the Clearing Members and ECAG to request buying-in for trades, which have not settled after the intended settlement date. Failed settlements will continue to be margined throughout the buying-in process. The exact timings for the buying-in are still under consideration and will be discussed with market participants in due course.

3.3.7 Corporate actions

The existing corporate action functionality within CREST will remain unchanged by the introduction of the CCP service.

All risk positions resulting from, and updated due to, corporate action events will be made available to ECAG for risk management purposes. ECAG will base its risk margining solely on the adapted risk positions provided by CRESTCo.

Members should however familiarise themselves with the CREST white book, *Corporate actions: Central Counterparty for gross and net settlement* available from the CRESTCo website www.crestco.co.uk. It will explain how corporate actions are currently processed and how they will be impacted with the introduction of the Exchange's CCP service.

3.3.8 Stamp duty

A charge to stamp duty arises on the underlying purchase of Irish and UK securities in line with existing market practices. As described above two transactions are created in CREST for each execution on ISE Xetra. Consequently, the Irish Revenue Commissioners have treated the settlement of transactions in Irish securities arising out of clearing activities as concessionally relieved from payment of the stamp duty charge where they subsequently qualify for closing relief (the buy and sell side is settled within 25 business days).

The Irish Revenue Commissioners have indicated that under closing relief a stamp duty charge may arise if the contract is not settled within 25 days of the original contract. The Exchange has raised this issue with the Irish Revenue Commissioners with a view to achieving the necessary legislative change to ensure that the introduction of a CCP does not result in any risk of an additional stamp duty liability for market participants.

Similarly a legislative change will also be required in relation to the settlement of CCP trades in UK securities carried out on the Exchange to avoid SDRT in relation to clearing activities. The Exchange has raised this issue with the UK Inland Revenue with a view to achieving the necessary legislative change.

4 Market participant roles in trading, clearing and settlement

Member firms which trade on the Exchange have an existing link to the trading platform ISE Xetra. Member firms also have existing connectivity to CRESTCo to ensure settlement of trades undertaken on ISE Xetra. The introduction of a CCP will require an extension of these relationships. In particular, member firms will need to establish, either directly or indirectly, a relationship with ECAG to ensure the continued clearing and settlement of their trades carried out on the ISE Xetra order book. As a result, participants will have to enter into a slightly revised contractual agreement with CRESTCo and a new agreement with ECAG. The various roles played by a participant can be different depending on whether they are active in trading, clearing, or settlement. These are explained in this chapter.

4.1 Trading

In order to trade on the Exchange's order book, a participant has to be an Exchange trading member.

4.2 Clearing

In order to clear trades under the clearing and settlement model, member firms need to establish a relationship with ECAG. For clearing purposes, ECAG differentiates between:

- Non-Clearing Members (NCMs), which are Exchange member firms that trade in Exchange CCP eligible securities on ISE Xetra and choose not to clear their own trades. They are typically entitled to execute proprietary trades or agency trades. For clearing purposes, each NCM needs to have a relationship with an ECAG General Clearing Member (GCM) or Direct Clearing Member (DCM) for affiliates, to clear its ISE Xetra business; and

- Clearing Members (CMs), which are entitled to perform the clearing of CCP eligible trades. In addition, CMs are liable for the timely fulfilment of all payment and delivery obligations against ECAG that result from these trades.

  ECAG makes a distinction between clearing membership types: the General Clearing Member (GCM) and the Direct Clearing Member (DCM). Unlike the GCM, the DCM may only clear its own proprietary and agency trades, and the trades of its own subsidiaries. However, GCMs are additionally allowed to clear trades of their NCMs. CMs can have several clearing licences which are granted by ECAG for clearing different markets e.g. ISE Xetra and Eurex Bonds.

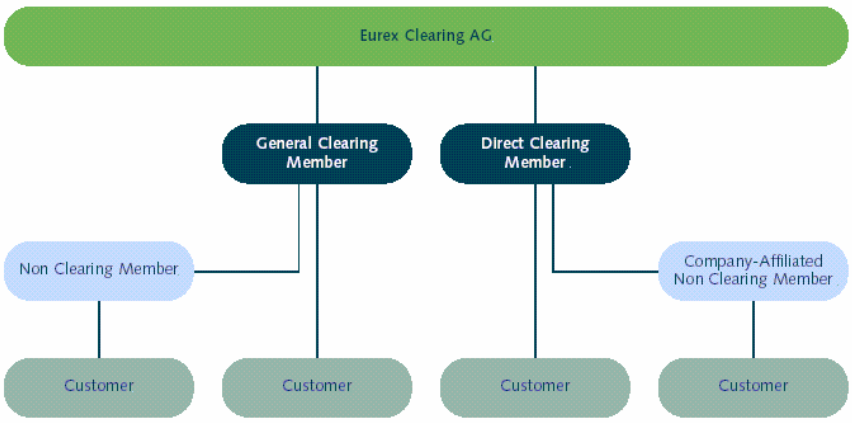


Figure 3a: Contractual relationship with ECAG

4.3 Settlement

For settlement purposes, CREST differentiates between:

- a settlement participant, which has access to both securities and cash functionality. In the context of the CCP service for eligible Exchange trades, a settlement participant will be either a CREST member or a CCP participant. ECAG will be admitted into CREST as a CCP participant and the settlement agent acting on behalf of the NCM and/or CM will be admitted as a CREST member; and

- a CM undertaking, CRESTCo requires an ECAG CM to become a CM Undertaking to view open positions in the CREST system. A CM Undertaking will not be permitted to input, amend or delete settlement instructions.

4.4 Interaction of the different roles

The following provides an overview of the interaction between different roles involved in the securities market infrastructure. Participants can perform functions associated with one or more of these roles.

An Exchange trading member enters orders on the ISE Xetra order book, which, when executed, become CCP eligible trades. The trading member is either a CM or NCM at ECAG. A NCM uses another CM to clear its trades. The NCM does not have direct obligations towards ECAG. A CM is principal to all its own and its NCM's trades, i.e. it has to fulfil all obligations towards ECAG as well as all obligations to the NCM.

Each ECAG CM has to be a dedicated CM Undertaking at CRESTCo. A CM Undertaking is, or uses a, settlement participant to operate the settlement at CRESTCo. In the latter case, the settlement participant has to be known by ECAG.

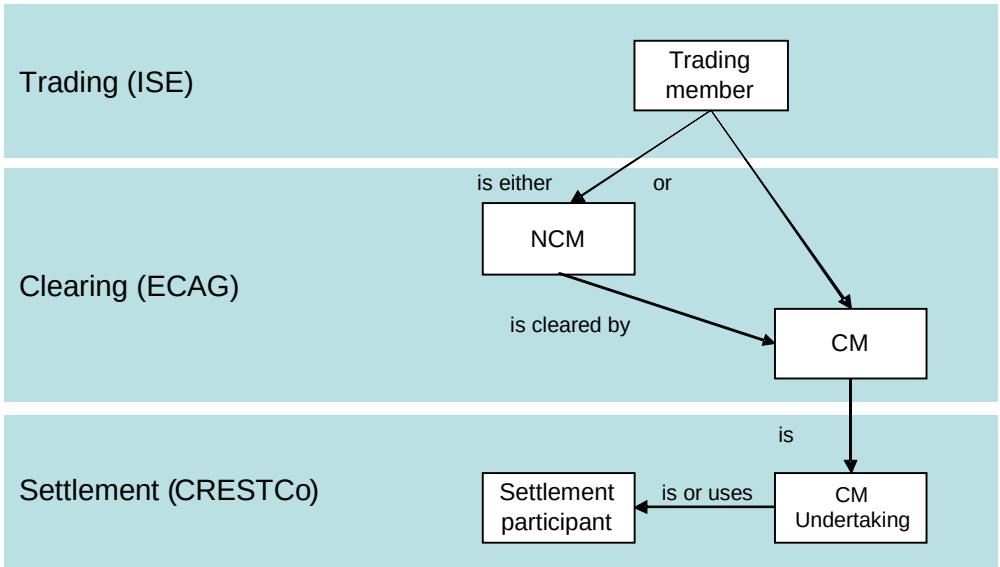


Figure 3b: Contractual relationships

5 Risk management

By becoming counterparty to CCP eligible trades, ECAG fulfils all obligations in relation to those trades. ECAG protects itself and its CMs against default risk by members, through its risk management procedures.

The main objective of ECAG risk management is to calculate margin for the identified risk positions of eligible securities resulting from pending trades and corporate actions as well as cash risk positions resulting from income payments. The resulting margin requirements have to be covered by collateral.

ECAG supports EUR as the settlement currency for the CCP for Exchange trades. Margin calls (i.e. the clearing currency) will be in EUR or CHF. For production launch, no cross-margining with other markets (e.g. Eurex, Eurex Bonds, Eurex Repo) is planned.

The following figure shows the general process flow for risk-based margining:

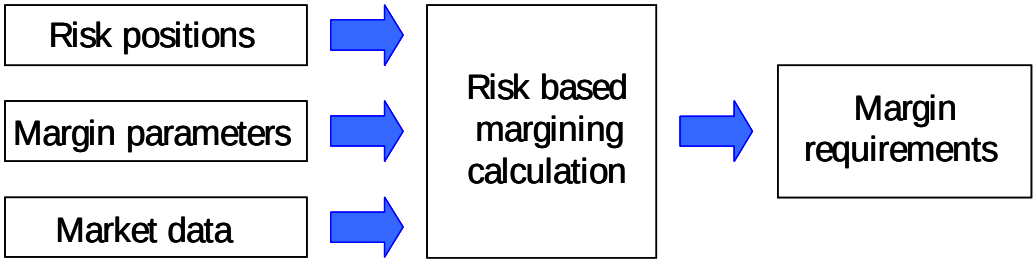


Figure 4: Risk-based margining process flow

For more information please refer to the Eurex Clearing Risk Based Margining brochure which is available on www.eurexchange.com/clearing/overview/brochures.html. Complete descriptions of the risk-based margining algorithms are available to Eurex members and on request to other relevant parties.

5.1 Settlement price calculation

At the end of each business day, ECAG uses closing ISE Xetra prices to evaluate risk positions and to calculate margin parameters. Clearing supervision, which monitors ECAG's risk position may overwrite settlement prices in certain circumstances, e.g. where significant market volatility exists.

5.2 Risk position determination

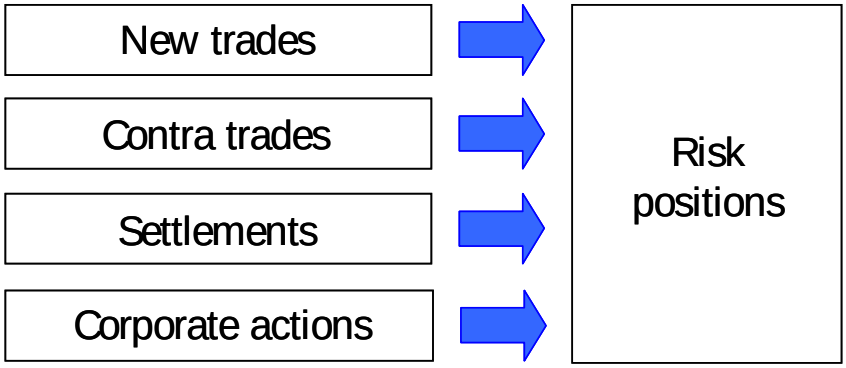


Figure 5: Determination of the risk positions

The risk positions are generated and changed based on the incoming trades, contra trades, settlements and corporate actions.

The determination of risk positions forms the basis for margining. The level of margin required from each member is recalculated on a daily basis by adding any transactions made during the day, considering contra trades, and considering settlements. ECAG calculates the margin at frequent intervals during the day and reserves the right to make intra-day margin calls if necessary due to position or price changes.

5.3 Margin calculation

The margin requirements are calculated per clearing member. The margin requirements are determined using several different levels of netting or offset.

The calculation of the margin requirement consists of:

- **Current liquidating margin**, using the mark-to-market principle and corresponding to the profits and losses at the time of evaluation. Therefore, the security and cash risk positions are evaluated at the current market value. This step is essential to avoid the accumulation of loss. This results in the current liquidating margin, which is separately determined per margin class, NCM, clearing member, currency and account type (agent, principal); and
- **Additional margin**, separately determined for the security risk positions per margin class, NCM, clearing member, currency and account type. This component is calculated to cover the risk of a "worst case loss" caused by an adverse overnight price movement. The overnight price movement is approximated by the risk parameter, which consists mainly of historical volatility and of a liquidity factor.

The total daily margin requirement for an NCM is the sum of all current liquidating margin and additional margin requirements from all margin classes in the same currency per account type, eliminating any margin credits.

The daily margin requirement of a CM per currency is calculated by adding all margin requirements of all corresponding NCMs and account types.

Where the CM is also active in other ECAG clearing markets (Eurex, Eurex Bonds, Eurex Repo, or Xetra CCP), the respective margin requirements must also be considered for the final total daily margin requirements.

ECAG provides daily margining reports. The margin calculation requirements are shown in detail with information on risk positions, the current liquidating margin, and the additional margin. CMs are provided with relevant information including settlement prices, margin parameters, and risk reports based on expected future market prices.

5.4 Eurex margin calculator

ECAG provides the Eurex Margin Calculator, a computer-based simulation program designed to calculate ECAG margin requirements (http://www.eurexchange.com/clearing/rbm/calculator.html). The program is based on the Eurex risk-based margining model and simulates the margin calculation for existing or new positions for all products cleared by ECAG: equities, derivatives, bonds and repos.

5.5 Layers of protection

To protect against the risk of default by any of its members, ECAG has established a hierarchy of preventive measures. In the event of default by a CM, ECAG may use the layers of protection described below to fulfil the obligations of a defaulting CM:

- If a market participant as a Clearing Member of ECAG is no longer able to fulfil its obligations, ECAG may liquidate all its open positions. All liquidation gains or losses will be offset against each other, and any remaining debit balance will be covered from the cash and security collateral which has been deposited.

- If thereafter an uncovered debit balance still exists, a claim will be made against the clearing guarantee of that clearing member. If any surplus remains it will be paid out.

- If any uncovered debit balances still exist, ECAG reserves will be used.

- The next level of protection provides for a pro-rata claim to be made against the clearing guarantees deposited in the guarantee fund by those institutions that are not in default.

This procedure guarantees that the fulfilment of all trades via ECAG can be assured.

5.6 Default rules

In the event of default by a DCM or GCM with ECAG, it is assumed that the relevant default rules will be those that apply under German law (i.e. the default rules of ECAG will govern the ECAG-CM contract). In relation to a default of any individual member firm with a GCM, it is assumed that it will be the law of the jurisdiction governing the agreement.

According to ECAG default rules, the following rules will always apply:

- a CM is always principal (i.e. fully responsible) to the CCP; and
- an NCM is always principal to its CM.

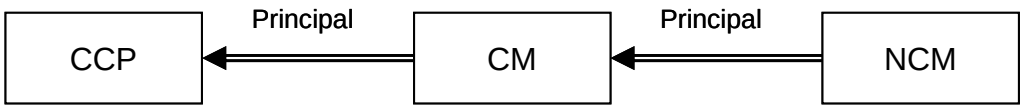


Figure 7: Relationships

6 Collateral management

In order to cover their margin requirements, it is proposed that CMs can either pledge their own securities to ECAG or pay the amount in cash. Under the current arrangements CMs are obliged to have a sub-account with Clearstream Banking Frankfurt (CBF) or SegaInterSettle (SIS) pledged to Eurex Clearing AG, and a central bank account at the Bundesbank (BuBa), Swiss National Bank (SNB) or correspondent bank. ECAG is entitled to directly debit/credit the central bank accounts.

ECAG accepts the following collateral:

- cash in EUR and CHF;
- selection of bonds/bills;
- selection of equities; and
- selection of exchange traded funds.

For more information please refer to the Eurex Clearing Risk Based Margining brochure, which is also available at www.eurexchange.com/knowledgecenter/brochures.html.

6.1 Collateral evaluation

The collateral on the security deposit account of each CM is evaluated daily in the Eurex system. This is done by means of settlement prices. Different haircuts are used depending on the security pledged as collateral. When evaluating equities, a haircut is applied to reflect potential market impact in case of the default of a member.

6.2 Operate collateral book

Each business day, the margin requirement is set against the deposited and evaluated securities. If these are not sufficient, the deficit is debited from the BuBa/ SNBaccount of the CM. In case the amount of pledged securities is increased or the margin requirement is reduced, ECAG will automatically transfer the debited cash amount back to the CM.

ECAG pays interest for cash collateral. The cash deposit rate is specified in the Eurex Clearing Conditions on the Eurex website at http://www.eurexchange.com/about/rules/exchangereg_en.html.

6.3 Reporting on collateral

ECAG provides collateral reports in order to enable participants to manage their collateral effectively. Reports show collateral balances, the movements of securities and information about the use of cover, the expiration of securities and interest paid on a detailed and aggregate level.

7 Tariff

CRESTCo will apply its standard tariff to the Exchange's CCP service. Details of the CRESTCo tariff payable by members can be found on the website (www.crestco.co.uk).

ECAG will charge Irish Equity Clearing Members for the provision of all clearing services. ECAG plans to apply a clearing fee which is no more than the current UK clearing fee structure. Fees will be charged to each side of a trade entering the clearing and settlement process.

8 Market participant tasks for admission

8.1 Exchange trading admission

Equity and ETF trading members of the Exchange must be participants in the settlement and clearing model. As all trading members are existing members of CREST, they will need to establish a relationship either directly or indirectly with ECAG as outlined below. All trading participants will need to ensure that the Exchange is advised of changes to their clearing or settlement arrangements. Any new member will also have to meet these requirements.

All relevant data in relation to a trading member's clearing and settlement arrangements will be collected on one form which each new member will be required to complete.

8.2 ECAG clearing admission

Participation as a GCM or DCM requires issuance of the appropriate licence for which the following requirements need to be fulfilled.

Clearing membership
Financial institutions located within the European Union or Switzerland authorised to operate custody business, credit operations and receipt of margin by customers in the form of securities and cash are eligible for a Eurex Clearing Membership. Applicants must meet the minimum capital requirements and contribute a specific amount to the Eurex Clearing AG clearing fund.

Contribution to the clearing fund
Irrespective of the provision of other margin, each CM is obliged to pay a contribution to the Clearing Fund. This contribution is not required in the event that the applicant has already paid a contribution to the Clearing Fund for another clearing membership of ECAG with the same clearing status. The contribution can be provided by bank guarantees and/or cash or security collateral.

The initial contribution to the Clearing Fund varies by the status of the CM. It amounts to EUR 5 million for a GCM and EUR 1 million for a DCM.

A reassessment of the contributions is carried out quarterly, with the new contribution being the maximum of:

- the member's initial contribution;
- 2% of the member's 30-day average of total margin requirements across all markets; and
- 2% of the member's 250-day average of total margin requirements across all markets.

Minimum Capital Requirements

The minimum amount of liable equity capital to be provided is:

Clearing Licence	GCM Liable Equity Capital	DCM Liable Equity Capital
Equity	EUR 25 million	EUR 2.5 million
Derivatives	EUR 125 million	EUR 12.5 million
Bonds	EUR 50 million	EUR 5 million
Repo	EUR 175 million	EUR 17.5 million

Table 2: Minimum capital requirements

Irrespective of the minimum amounts of liable equity capital specified above, the actual amount of liable equity capital to be evidenced and maintained shall be the maximum of:

- the clearing licence minimum amount;
- 10% of the member's 30-day average of the total margin requirements across all markets; and
- 10% of the member's 250-day average of the total margin requirements across all markets.

Clearing agreement

Both ECAG and the applicant have to agree to and sign a general or direct clearing agreement.

Settlement account

The CM has to provide at least one settlement agent in CREST (directly or indirectly) through which it will settle its transaction both with the CCP and its NCM.

Cash clearing accounts

The CM settlement agent has to hold an account with a CREST settlement bank in order to debit/credit cash arising out of the settlement process of Exchange CCP eligible trades.

Furthermore a BuBa/SNB (direct or via a correspondent bank) account is required to establish ECAG margin credit and respond to ECAG margin calls.

Pledged securities account

In order to provide margin, the CM can pledge securities in a pledged securities account maintained exclusively for ECAG by the CM at CBF or SIS. For the purpose of such a pledge, the CM has to assign its rights to claim these securities from the account to the CCP.

In order to meet the admission requirements, a GCM or DCM must also have sufficiently qualified staff for the orderly fulfilment of the clearing obligations, and appropriate back-office facilities.

8.3 CRESTCo clearing and settlement admission

Please note that a CREST member may be both a CM (GCM or DCM) and a settlement participant.

Clearing Members

CMs are required to become a CM Undertaking in CRESTCo. This is fulfilled through the completion of the appropriate CM Undertaking agreement. This will allow the CM to view open positions throughout the day.

Settlement participants

Settlement participants will have to inform CREST of their BIC Code, default account ID, and clearing member's ID via a static data form. Furthermore, each settlement member will have to inform CREST of the direct input options they wish to elect, and indicate whether or not they wish to participate in settlement netting.

9 Abbreviations and glossary of terms

9.1 Abbreviations

Abbreviation	Long Name
BuBa	Bundesbank
CBF	Clearstream Banking Frankfurt
CCP	Central Counterparty
CM	Clearing Member
DBAG	Deutsche Börse AG including subsidiaries
DCM	Direct Clearing Member
DEL	Delivery transaction
ECAG	Eurex Clearing AG
ETF	Exchange Traded Fund
Exchange	Irish Stock Exchange
GCM	General Clearing Member
ISD	Intended Settlement Date (Contractual Settlement Date in ECAG terminology)
NCM	Non-Clearing Member
SDRT	Stamp duty reserve tax
SIS	SegaInterSettle
SNB	Swiss National Bank
TSO	Trade System of Origin

9.2 Glossary of terms

CCP participant	A participant with full membership in CRESTCo, that has Clearing Member and certain automated management functionalities
Clearing Member (CM)	CMs are members entitled to perform the clearing of equity transactions. In addition, CMs are liable for the timely fulfilment of all payment and delivery obligations against ECAG that result from trades. ECAG makes a distinction between clearing membership types i.e. Direct Clearing Member, General Clearing Member and Non Clearing Member. CMs can have several clearing licences which are granted by ECAG for clearing different markets, e.g. ISE Xetra, Eurex and FWB Xetra
CM Undertaking	CRESTCo requires an ECAG CM to become a CM Undertaking to view open positions in CREST. This membership entails "read only" functions and does not permit such an entity to input, amend or delete transactions
Direct Clearing Member (DCM)	A member of ECAG that only clears its own proprietary trades, its own agency trades and trades of its own subsidiaries
Direct input	The ability to input transactions into the CREST on behalf of members, based on trade data received from the Exchange or as a result of the settlement netting process
Eligible trade	A trade is CCP eligible to the extent that it meets the following criteria: • it is executed on the ISE Xetra order book; • it is a spot trade, i.e. a binding obligation to exchange a security for cash at a defined intended settlement date in the future; • the underlying trade is in an eligible security; • both trading members have either a clearing relationship with ECAG or use a third party to have such a clearing relationship with ECAG; • it has a valid market price; and • it is executed on an Exchange business day and during ISE Xetra order book hours
Eligible securities	Exchange order book securities which are traded on ISE Xetra, including equities, preference shares, warrants, rights and exchange traded funds
General Clearing Member	A General Clearing Member (GCM) can clear trades for their NCMs and otherwise perform all the functions of a DCM
Net settlement	The result of settlement netting (see below)
Non-Clearing Member (NCM)	NCMs are Exchange member firms which trade in relevant Exchange CCP eligible securities on ISE Xetra and choose not to clear directly with ECAG. They are entitled to execute proprietary trades and

	agency trades depending on their regulatory authorisation. For clearing purposes, each NCM needs to have a relationship with an ECAG General Clearing Member (GCM) to clear its ISE Xetra business
Principal	An entity fully responsible in all cases for its obligations
Settlement netting	Transformation of the obligations between the CCP and a CM into cash payments and delivery instructions with the intention of reducing the number of delivery instructions that must actually be settled through CREST
Settlement netting principal	Participant type that determines those members against whom other members can net trades for settlement purposes. For the Irish market, the ECAG will be the only settlement netting principal as counterparty to all CCP eligible trades
Settlement participant	Participant that operates the settlement account at CREST and has access to the CREST system