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# e u r e x *circular 049/05*

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## Global Clearing Link – Update on Phase II and Start of Dedicated Simulation Phase

**Related Eurex Circulars:** 041/04, 070/04, 091/04, 103/04, 127/04, 142/04, 159/04 and 012/05

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| **Content may be most important for:** | **Attachments:** |
|---|---|
| ➲ All departments | None |

**Summary:**

Eurex Clearing AG (Eurex Clearing) is pleased to announce that The Clearing Corporation and Eurex US requested on March 14, 2005, the Commodity Futures Trading Commission (CFTC) to grant them permission to implement the second phase of the Global Clearing Link (GCL).

Through the launch of the Phase I of the GCL in October 2004, clearing participants of The Clearing Corporation have got the opportunity to offer clearing services for certain EU products traded on Eurex and made available in the U.S. on Eurex trading terminals pursuant to Commodity Futures Trading Commission (CFTC) staff no-action letter. The second phase of the Global Clearing Link is comprised of the link for US products traded on Eurex US, thus providing customers with clearing access through Eurex Clearing. In addition, GCL Phase II provides for the cross-listing of selected EUR-denominated products on Eurex US and Eurex. These contracts which are currently listed for trading at Eurex are permitted to be traded on Eurex trading terminals in the U.S. pursuant to CFTC staff no-action letter. Phase II of the GCL is a prerequisite for extending trading hours in these products to 23 hours between both trading platforms. It also permits EU products traded on Eurex US to be cleared using members' existing relationships with Eurex Clearing.

This circular provides an update to the second phase of the GCL and notice of the start of the dedicated GCL Simulation period on May 17, 2005, giving Eurex members the opportunity to align their internal preparation activities accordingly. In addition, it lists a set of Frequently Asked Questions (FAQ). Kindly note that the Global Clearing Link for USD-denominated products and cross-listed EUR-denominated products on Eurex US described in this circular is subject to receipt of all requested regulatory approvals. Therefore, the underlying concepts, rollout schedule and other information contained in this circular may be subject to change.

If you are interested in participating in Phase II of the Global Clearing Link and wish to receive any additional information or support regarding preparation activities, please contact the Customer Support Team at one of the numbers indicated above or write an e-mail to: customer.support@eurexchange.com.

# Global Clearing Link – Update on Phase II and Start of Dedicated Simulation Phase

Eurex Clearing AG (Eurex Clearing) and The Clearing Corporation are creating a transatlantic clearing solution for customers of Eurex and Eurex US. The Global Clearing Link (GCL) combines the liquidity pools of the most traded financial derivatives contracts in the world and offers extended high-qualitative clearing services and risk management around the clock.

To provide market participants with additional information on Phase II of the GCL, Eurex Clearing and The Clearing Corporation are hereby giving notice of the start of the dedicated Simulation phase and a list of Frequently Asked Questions.

You can also access further information and documentation on the Global Clearing Link on the Eurex website under the following paths:

**www.eurexchange.com > Clearing & Settlement > Global Clearing Link**

**www.eurexchange.com > Member Section > Documentation/Manuals GCL > Global Clearing Link**

## A) Start of Dedicated GCL Phase II Simulation Phase

On March 14, 2005, The Clearing Corporation and Eurex US formally requested the CFTC to grant them permission to implement the second phase of the GCL. Accordingly, Eurex Clearing is pleased to provide notice of when the dedicated Simulation will start for Phase II of the GCL in order to give Eurex members the opportunity to align their internal preparation activities accordingly. The preliminary rollout timeline foresees the start of the Simulation for Phase II of the GCL on May 17, 2005. The simulation period will offer a dedicated and supported GCL production-like environment. The length of this simulation period assures that all interested members and Independent Software Vendors (ISV) will be ready for the production start. The simulation period will include specific focus days to stress specified functionalities, such as Order Hand-Over or Give-Up/Take-Up instructions via the GCL.

## B) FAQs regarding Phase II of the Global Clearing Link

### Q1: How can clearing and trading members benefit from the Global Clearing Link?

The GCL offers a unique solution for global markets, enabling market participants to easily access a wide range of benchmark products. This creates enhanced member opportunities and allows continuous efficiency for fair and transparent markets. For the first time, customers will be able to leverage their existing clearing infrastructures to access both US and EU products. The entire industry, including end users, broker dealers, and institutional investors in both markets, will benefit from enhanced:

**Business Opportunities**

- Extension of trading and clearing services to clients by accessing new market places and products
- 23-hour trading of EU and US benchmark products
- Increased market efficiency through improved hedging opportunities
- Transatlantic fungibility of EU benchmark products and a single open interest pool

**Operational Efficiencies**

- Leverage existing clearing relationships and infrastructure to access a transatlantic marketplace
- Cost savings through streamlined and consolidated processes

**Capital Efficiencies**

- Efficient cross-marketplace risk allocation and collateral pooling
- Cross-margining (portfolio-margining) opportunities between EU and US[1]
- Single guarantee pool reduces total capital contribution

**Q2: International Clearing Links between clearing houses have been implemented before, in which way is the Global Clearing Link innovative?**

Eurex focuses on delivering value to customers and creating a highly competitive, worldwide marketplace for US and EU benchmark futures and options products. The GCL between Eurex Clearing and The Clearing Corporation creates the first real transatlantic clearing connection. It provides unprecedented flexibility for the exchanges' users worldwide to access clearing and settlement of EU and US benchmark products. The innovative character of the GCL is based on:

- Cross-listing of Euro-denominated benchmark products on Eurex and Eurex US
- 23-hour trading of US products on Eurex US as well as EU products on Eurex and Eurex US
- Full fungibility of EU products traded on two different trading platforms, Eurex and Eurex US, allowing members to easily open and close positions on the European Eurex and on Eurex US interchangeably
- Harmonized rules and standards within Europe and the U.S. incorporate existing market practice

**Q3: What products will be available via the Global Clearing Link?**

USD-denominated products will only be listed on Eurex US. However, they will be eligible for the link for US products and currently are:

- 2-Year, 3-Year, 5-Year, and 10-Year Treasury Note Futures and Options on these Futures
- 30-Year Treasury Bond Futures and Options on these Futures
- Futures on Russell® 1000 and Russell® 2000 Indices.

Eurex US plans to cross-list the following products, which would be fungible and accessible via the link to be carried by Clearing Members/Participants of either Eurex Clearing or The Clearing Corporation:

Interest Rate Derivatives

- Euro-Bund Futures and Options on Euro-Bund Futures
- Euro-Bobl Futures and Options on Euro-Bobl Futures
- Euro-Schatz Futures and Options on Euro-Schatz Futures

Equity Index Derivatives

- Dow Jones EURO STOXX℠ 50 Futures
- DAX® Futures

**Q4: What is the planned trading schedule for trading cross-listed EU products?**

Trading in Euro-denominated products (for example, futures on Bund, Bobl and Schatz) will occur on Eurex US outside of Eurex's trading hours, which results in these products being available for trading 23 hours a day without overlapping trading hours. Therefore, it will be considered to determine the closing of trading on

[1] The term "cross-margining" is used in this document to refer to what is sometimes described as "portfolio-margining" – that is, the maintenance of positions and related margin deposits in a single collateral pool at one clearing house.

Eurex at 17:35 CET for products which will be cross-listed on Eurex US (subject to decision by the bodies of the Eurex exchanges).

The following trading schedule is planned for these products:

| Trading Phase | Trading System | Time CET | Time CST* |
|---|---|---|---|
| Session 1 | Eurex US | ~17:40 - 23:00 | ~10:40 - 16:00 |
| Session 2 | Eurex US | ~00:00 - 07:45 | ~17:00 - 00:45 |
| Session 3 | Eurex | ~08:00 - 17:35 | ~01:00 - 10:35 |

* Chicago Local Time

Kindly note that trading of futures on DAX® and Dow Jones EURO STOXX℠ 50 Indices on Eurex is planned to be started at ~09:00 CET respectively ~02:00 CST (Session 3).

**Q5: What do I have to do to prepare to participate in the Global Clearing Link Phase II?**

Clearing Members

As a Clearing Member of Eurex Clearing you should first evaluate and analyze which transatlantic trading and clearing set-up will accommodate best your needs to benefit from new business opportunities. This assessment should include the analysis of clients for which you are already carrying positions. If you are also interested in becoming a trading member of Eurex US (which is not a pre-condition to participate in the GCL), you should contact Eurex US in order to start the admission and connection process.

Once you decide to participate in the GCL, you need to apply for an extension of your current clearing license with Eurex Clearing in order to carry positions in EU and/or US products that are traded on Eurex US. Clearing Members who are interested in clearing US products need to be technically connected to The Clearing Corporation, which acts as facilitator for Eurex Clearing by providing the system and settlement infrastructure to clear US products. In addition, Clearing Members of Eurex Clearing which will carry positions in US products need to utilize a cash account and settlement infrastructure in the U.S., as required by The Clearing Corporation.

Trading Members

As a trading member of Eurex you should consider becoming a Eurex US trading member to benefit from 23-hour trading of EU and US products. To become a member of Eurex US, it is necessary to apply for a Eurex US membership and for a network connection to the Eurex US's infrastructure. Within this connection, the existing Eurex system infrastructure can be leveraged to access Eurex US. However, additional bandwidth or an internet connection is required in order to install a new network connection to Eurex US. Once Phase II of the GCL is in place, trading members of Eurex which are also Eurex US trading members will be able to use their existing Eurex clearing relationship for EU and/or US products that are executed on Eurex US.

**Q6: Will the Global Clearing Link require the introduction of a new Eurex software release?**

With introduction of Eurex Release 7.0 in October 2004 all necessary technical and functional enhancements have been provided to support the implementation of the GCL Phase II and no further software releases will be required. The specific GCL features can already be accessed and tested in the Eurex/EurexUS/The Clearing Corporation simulation environment and will be launched into production with implementation of Phase II of the GCL.

**Q7: How will orders be handed over between Eurex and Eurex US?**

As orders are not automatically transferred between Eurex and Eurex US, Eurex offers a free stand-alone application that supports transfer of orders for contracts listed on both trading platforms. The so-called "Order Handover Tool" (HOT) is a VALUES API-based, easy to use, application which provides the market with a facility to transfer regular orders between both trading systems.

The Order Handover Tool has already been made available in the Eurex/Eurex US simulation since September 2004. On January 28, 2005 Eurex has published an enhanced version 1.1 of the HOT for use within the simulation environment. For detailed information please refer to Eurex Circulars 127/04 and 012/05 as well as to the user documentation and installation guide that have been posted for download in the member section of the Eurex and the Eurex US website.

**Q8: For which time is the Clearing Cut for cross-listed EU products planned?**

All trades in cross-listed EU products that have been executed on Eurex US from 17:35 CET the previous day (T-1) until the end of trading at 07:45 CET on the next day (T) will be fed into the system of Eurex Clearing acting as service provider for The Clearing Corporation before start of trading at Eurex at 08:00 CET on the same day (T). However, post-trading functionalities will be available until 17:30 CET of the same day (T) and the Clearing Cut will be performed with the End-Of-Day process (batch) of Eurex Clearing.

**Q9: Will there be a possibility to execute give-up transactions during Eurex off-hours?**

Yes. At present, Eurex Clearing and The Clearing Corporation are planning to offer a solution which will enable clearing members/participants of Eurex Clearing and The Clearing Corporation to perform trade management and give-up/take-up transactions for EU products during Eurex's off-hours via front-end or the TREX/GAPI interface of The Clearing Corporation.

As soon as a detailed description is available a separate circular will be published and the respective documents will be posted on the Eurex and The Clearing Corporation websites.

**Q10: How does the Large Trader Reporting (LTR) requirements apply to Phase II of the GCL?**

The Clearing Corporation and Eurex US, in their submission to the CFTC, explained the following about Large Trader Reporting Requirements:

"CCorp, its clearing participants and FCMs that trade through the Clearing Link will be required to report information about positions that they carry in those fungible products to the Commission and National Futures Association (NFA), while Eurex Clearing and its clearing members that trade through the Clearing Link will be required to provide information about the open positions that they carry in those fungible products to the Trading Surveillance Office of Eurex ("TSO") and the German regulatory authorities, respectively."

**Q11: Will reporting according to § 9 WpHG (Wertpapierhandelsgesetz, which means German Securities Trade Act) be required for EU Products traded on Eurex and Eurex US?**

The § 9 WpHG reporting requirements for Eurex transactions will remain unchanged.

For Eurex US transactions in EU products, banks or financial service providers domiciled in Germany as defined in § 9(1) WpHG will be required to comply with WpHG reporting requirements. All other Eurex US trading members are not subject to § 9 WpHG reporting. However, they may have to fulfill additional reporting requirements solicited by their corresponding local regulatory authority (for example, Financial Services Authority, FSA). Eurex US transactions in USD-denominated products are not subject to § 9 WpHG reporting at all.

Frankfurt, March 23, 2005