X-pand into the Future

e u r e x *circular 220/05*

Date: Frankfurt, November 14, 2005
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Introduction of CCP Release 3.1: Delivery Harmonization

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Content may be most important for:	**Attachment:**
➲ All departments	CCP Release 3.1: Delivery Harmonization – Scope Overview

Summary:

With this circular Eurex Clearing AG announces the introduction of CCP Release 3.1.

CCP Release 3.1 will harmonize delivery processes from the Eurex derivatives market with those from the cash market of Deutsche Börse AG. In addition, connection of the UK market will be within scope of CCP Release 3.1 to enable settlement of Eurex derivatives trades on UK underlyings.

In an effort to harmonize delivery processes, the existing CCP process already in place for various markets will be extended to include deliveries from the derivatives market. The process currently applied for Eurex derivatives will be discontinued.

Participants benefit from the opportunity of managing all deliveries within CCP according to the settings that were previously valid only for deliveries originating from the cash market.

In addition, Eurex is planning a further expansion of its product range into options on selected UK equities and futures on UK Gilts.

In order to enable you to evaluate the requirements your company will need to meet for implementation of CCP Release 3.1, we will distribute the following documents **on November 28, 2005**:

- CCP Release 3.1 Release Notes
- VALUES API Modification Announcement
- CCP Release 3.1 Member Activity Overview

Production start of CCP Release 3.1 will be in the course of the second quarter of 2006. The exact date will be fixed in agreement with the participants.

Kindly forward this release announcement to all involved departments in your company.

Introduction of CCP Release 3.1: Delivery Harmonization

With this circular Eurex Clearing AG announces the introduction of CCP Release 3.1.

CCP Release 3.1 will harmonize delivery processes from the Eurex derivatives market with those from the cash market of Deutsche Börse AG. In addition, connection of the UK market will be within scope of CCP Release 3.1 to enable settlement of Eurex derivatives trades on UK underlyings.

In an effort to harmonize delivery processes, the existing CCP process (settlement netting, custody income processing, corporate actions processing, management of deliveries, reporting) already in place for various markets will be extended to include deliveries from the derivatives market. The process currently applied for Eurex derivatives, in which positions from the derivatives market - after exercise/assignment or notification/allocation - are netted on Clearing Member level and series level prior to the actual delivery, will be discontinued. After introduction of CCP Release 3.1 all deliveries resulting from exercise/assignment or notification/allocation will be transmitted to CCP for management and delivery.

Participants benefit from the opportunity of managing all deliveries within CCP according to the settings that were previously valid only for deliveries originating from the cash market.

In addition, Eurex is planning a further expansion of its product range into options on selected UK equities and futures on UK Gilts.

Enhancement of the Eurex product scope may lead to an extension of eligible settlement locations to further Central Securities Depositories (CSDs). It is envisaged to connect CRESTCo for settlement of UK equities and UK Gilts.

Regarding trade and delivery management services, Eurex deliveries out of UK products are planned to be displayed read-only in the CCP-GUI. Trade management is envisaged to take place within the CRESTCo infrastructure on gross basis according to the UK market model. Corporate actions are reflected in the CCP-GUI to keep delivery information up-to-date but no specific reporting for income and non-income events will be established.

Cash payments in GBP products are planned to take place via a payment bank in the UK.

By means of the introduction of CCP Release 3.1, a further major step will be taken towards process harmonization among all markets connected to Eurex Clearing AG. With this move, differences in the delivery processes of cash and derivatives markets will be overcome.

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Production start of CCP Release 3.1 will be in the course of the second quarter of 2006. The exact date will be fixed in agreement with the participants.

Kindly forward this release announcement to all involved departments in your company. Our Customer Support Team will be available under tel. +49-69-211-1 17 00, fax +49-69-211-1 17 01 for any further functional questions you may have.

Frankfurt, November 14, 2005

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CCP Release 3.1

Delivery Harmonization – Scope Overview

Table of Contents

1	Management Summary	**3**
2	Delivery Harmonization Outline	**4**
2.1	**Supported Platforms**	**4**
2.2	**Products**	**4**
2.3	**Eligible Trades**	**4**
2.4	**Supported CSDs**	**4**
3	Member Structure	**4**
4	Trade and Delivery Management Services	**5**
4.1	**Gross Delivery Management functionality**	**5**
4.2	**Settlement Method**	**5**
4.3	**Settlement Netting**	**6**
4.4	**CSD Assignment**	**6**
4.5	**Corporate Event Management**	**6**
5	Risk, Collateral and Cash Management	**7**
5.1	**Risk Based Margining**	**7**
5.2	**Collateral Management**	**7**
5.3	**Cash Management**	**7**
6	Reporting	**8**
7	Further Expansion of Product Scope into UK Products	**9**
8	Infrastructure Requirements	**10**
9	Contacts	**11**

1 Management Summary

This document describes the high level scope of Eurex Clearing AG's Central Counterparty Release 3.1 (CCP 3.1 - Delivery Harmonization). CCP 3.1 allows the integration of deliveries out of Notification/Allocation and Exercise/Assignment from Eurex into the existing Central Counterparty infrastructure and functionality of cash market products.

In addition, Eurex plans a further expansion of its product range, i.e., into options on selected UK equities and futures on UK Gilts (see chapter 7).

With CCP 3.1, clearing processes for different markets connected to Eurex Clearing AG will be further harmonised. CCP 3.1 is introduced on top of the functionality provided with previous CCP Releases. For a description of CCP processes introduced up to Release 3.0, please refer to the respective Release Notes.

The integration of Eurex deliveries into the Central Counterparty platform affects the systems, processes and organizational setup of clearing members depending on their existing setup.

CCP Release 3.1 is mandatory and not backwards compatible. This latest version of the CCP software must be installed by members. Existing in-house and third party applications must be adapted to take account of changes in the VALUES API interface and raw data/S.W.I.F.T. reports.

In order to ensure a smooth implementation of the Central Counterparty platform for all participants of Eurex, certain activities are to be performed on the member side. Eurex Clearing AG will support all participants during the entire rollout and implementation progress.

2 Delivery Harmonization Outline

2.1 Supported Platforms

The extended CCP services will be offered for deliveries resulting from Notification/ Allocation and Exercise/ Assignments out of Eurex.
All physical Eurex Deliveries will be eligibile for clearing and settlement via the CCP platform.

2.2 Products

CCP 3.1 will be offered for all products that are available in the Exercise/ Assignment and Notification/ Allocation process on Eurex at the time of the launch. Currently, German, Swiss and certain international equities (e.g. certain U.S. and Dutch stocks) as well as German and Swiss Government Bond represent the eligible product scope.

2.3 Eligible Trades

Regarding eligible trades, CCP supports all Exercises/ Assignments and Notifications/Allocations out of Eurex.

2.4 Supported CSDs

Following Eurex regulation, as today CCP will support the settlement depositories Clearstream Banking Frankfurt and SegaIntersettle (SIS), Zurich for deliveries resulting from Eurex.

3 Member Structure

Eurex Clearing supports different NCM – CM relationships for different markets. With the introduction of the CCP platform for Eurex Deliveries, Eurex members (General Clearing Member, Direct Clearing Member) with derivatives clearing license will need to link with the CCP infrastructure.

4 Trade and Delivery Management Services

After completion of the Notification/Allocation and Exercise/Assignment process in Eurex, deliveries (buy and sell side, equities and fixed income) will be automatically transferred to the CCP. After their validation, they are registered for further processing. The already provided services of the CCP can also be used for Eurex deliveries.

4.1 Gross Delivery Management functionality

Trade Management is facilitated by Gross Delivery Management (GDM), which provides Clearing Members and/or Settlement Institutions with the possibility to perform trade lifecycle management on a single trade basis.

Gross Delivery Management can be accessed via the VALUES interface respectively the @X-PERT member GUI and alternatively via a file-based member interface. Member Settlement Instruction Files (MSIF) can be sent via the file-based member interface which can be set up via SNA network or via S.W.I.F.T. network.

All trades resulting from Eurex Deliveries will be available for Gross Delivery Management. The following transactions can be performed:

Inquiry of Trades
Trades can be inquired. This includes their release status, their current settlement status as well as bond specific information.

Block, Release, Partial Release of Trades
Sell trades can be blocked to avoid their settlement and released to trigger settlement processing. Eurex Deliveries resulting in a cross-border external settlement between the CSDs are subject to limitations for block actions on settlement day; releases will be possible.

Linking of Trades (automatically/manually)
Buy and sell trades can be linked manually or automatically by assigning one sell trade to one buy trade. Linked buy trades are settled on the level Clearing Member (CM) – Customer if the associated sell trades are settled on this level.

Marking of Trades for Gross Processing
Buy or sell trades marked for gross processing will be considered on a gross basis for the delivery process, else they are considered in Settlement Netting.

Furthermore, it will be possible to inquire securities and cash settlement forecast and results. This information (forecast and results) can be requested via specific filters.

4.2 Settlement Method

Eurex Deliveries are settled via CCP standard settlement with settlement periods dependent on country between T+2 and T+4. CCP standard settlement comprises Settlement Netting and CSD Netting.

Settlement account and settlement location of a trade are determined according to ISIN/ account type specific settings of the CCP clearing member responsible for clearing Eurex trades.

4.3 Settlement Netting

Based on the member's Gross Delivery Management activities, settlement instructions will be created by CCP. Deliveries that are marked net and which have reached the contractual settlement date are subject to CCP Settlement Netting.
Settlement Netting is the process of offsetting a Clearing Member's buy and sell obligations. Thereby the maximum number of trades is netted within the CCP. To achieve this, an offsetting block (of buy and sell trades) with identical quantity and a surplus (representing the balance on the sell or buy side) is created within the Settlement Netting. The surplus trades and cash differences of the offsetting trades are transformed into net delivery instructions and cash payments. Depending on their size, the delivery instructions may be shaped to minimize the settlement amount per delivery instruction and to reduce the risk of failure at a CSD.

It is envisaged that Members will be able to benefit from cross-market netting between equity trades in the same instrument in the same settlement currency out of different markets. For example Eurex Deliveries can then be netted with trades out of Xetra. On the other hand Members also will have the possibility to separate Eurex Deliveries in CCP Settlement Netting from trades out of other trading locations in the same instrument. Fixed income Deliveries will be netted separately from trades out of other markets, e.g. Eurex Bonds/Eurex Repo.

4.4 CSD Assignment

For Eurex Deliveries which are to be settled externally at the CSDs, delivery instructions are created and forwarded to the CSD following Settlement Netting. Eurex Deliveries in settlement currency Euro (EUR) will always be assigned for settlement against Eurex Clearing at Clearstream Banking Frankfurt. Eurex Deliveries in settlement currency Swiss Francs (CHF) will always be assigned against Eurex Clearing at SegaIntersettle, Zurich.

Accordingly depending on the CSD where the Member account is situated, an external settlement will be conducted CSD internal or as cross-border. Member accounts for settlement of Eurex Deliveries are supported at Clearstream Banking Frankfurt and SegaIntersettle, Zurich.

4.5 Corporate Event Management

Eurex Deliveries are integrated into the existing corporate action processing performed by the CCP platform. For fixed income instruments and equity products, income as well as non-income events are performed automatically by Eurex Clearing CCP.

Compensation payments in Euro are performed via members' account at Deutsche Bundesbank. Compensation payments in Swiss Francs are performed via members' account at Swiss National Bank (SNB).

5 Risk, Collateral and Cash Management

5.1 Risk Based Margining

Eurex Clearing AG provides central risk management by applying Eurex's Risk Based Margining method and reports risk positions to Clearing Members.

Risk calculation will depend on whether a member participates in Settlement Netting and is unchanged with CCP Release 3.1.

If the member does not intend to participate in Settlement Netting, trades are processed gross and therefore each trade will form a separate cash and security gross risk position. These gross risk positions are referred to determine the short and long risk positions and in the calculation of the current liquidating margin and additional margin.

If the member participates in Settlement Netting, the securities and cash sides of trades are added for buy and sell sides as of today. The netted positions of the buy and sell sides result in one security and one cash net risk position either on the long or on the short side.

Eurex' Cross Margining rewards Clearing Members by reducing their margin deposit requirements by bundling highly correlated exposures and allowing their risks to offset.

Risk netting becomes possible for members trading on Eurex, Eurex Bonds, Eurex Repo and the FWB cash market if the member uses the same CCP clearer for the trades from all trading platforms. Risk netting is performed on NCM level.

5.2 Collateral Management

In order to cover their margin requirements, CMs can either pledge securities to Eurex Clearing AG or pay the amount in cash. Thus, CMs are obliged to have a pledge account with CBF or SIS pledged to Eurex Clearing AG and a central bank account at the Deutsche Bundesbank (BuBa) or Swiss National Bank (SNB). Eurex Clearing AG is entitled to debit/credit the central bank accounts.

Collateral management continues to be performed within the Eurex Core system. There is no impact with introduction of CCP 3.1.

5.3 Cash Management

Cash accounts serve to settle cash-only instructions (e.g. resulting out of payments due to settlement netting) at the supported payment locations BuBa and SNB. Each member has to specify cash-only accounts (including the respective payment location) for EUR and CHF per settlement account for settling cash-only instructions out of the offsetting block and for compensations in EUR and in CHF.

For the settlement of margin calls, the Clearing Member needs to hold a central bank account at either BuBa or SNB.

Members can use the same central bank accounts for both, settlement of CCP cash only-instructions and margin call settlement.

6 Reporting

Eurex Deliveries are integrated into the existing CCP reports for equities and bonds. As a result of Settlement Netting, the individual trades per member are not represented on the settlement accounts. Their reconciliation is possible via several reports, listed below:

CB230 Daily Gross Delivery Management

This report contains all transactions performed in "Gross Delivery Management" during the current day by the Clearing Member (CM), the Settlement Institution or on behalf of the CM by Clearing Supervision.

CE260 Pending Delivery

This report contains all pending trades and considers the STD/NTP settlement results. It will be produced after STD/NTP.

CE270 Settled Delivery

This report contains all settled trades. This report can be provided multiple times per business day (including end-of-day processing).

CE290 Eurex Deliveries (new report)

This report contains all Eurex Deliveries. This report is provided once a day (end of day).

7 Further Expansion of Product Scope into UK Products

Eurex plans a further expansion of its product range, i.e., into options on selected UK equities and futures on UK Gilts.

The enhancements in the Eurex product scope may lead to an extension of the eligible settlement locations to further domestic CSDs. It is envisaged to connect CrestCo for settlement of UK equities and UK Gilts.

Regarding the trade and delivery management service Eurex deliveries out of UK products are planned to be shown in the CCP for read-only purposes. The trade management is envisaged to take place within the CRESTCo infrastructure on gross basis according to the UK market model. Corporate action are reflected in the CCP to hold the delivery information up to date but no specifc reporting for income and non income events will be established.

Cash payments in GBP products are planned to take place via a payment bank in the UK.

8 Infrastructure Requirements

A dedicated connection to CCP is essential to access the new functionality. The following connectivity alternatives are offered:

- Premium Access - via two dedicated lines with 64KB or 128 KB bandwidth
- Combined Access - one dedicated line with 64KB or 128 KB bandwidth and one internet line as backup

Detailed information on changes and connection options envisioned for CCP Release 3.1 will be provided with the Release Notes.

9 Contacts

Eurex Clearing is commited to providing the highest levels of customer support. For questions and incitements on the upcoming CCP Release 3.1 please contact:

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Documents for existing CCP processes are provided in the Member Section of the Eurex website.

For your personal download copies, please visit

www.eurexchange.com > Member Section > Documentation/Manuals CCP.