X-pand into the Future

e u r e x *circular 130/04*

Date: Frankfurt, September 24, 2004
Recipients: All Eurex members and vendors, CCP members
Authorized by: Daniel Gisler

CCP Release 3.0 Announcement

Contact: CCP Member Readiness, Tel.: +49-69-211-1 16 60, e-mail: ccp.fi@eurexchange.com

Content may be most important for:

➲ All departments

Attachments:

1. FI CCP Fundamentals
2. CCP Release 3.0 Communication Calendar
3. Faxreply Project Coordinator

Summary:

Currently, Eurex Clearing AG is offering clearing services to participants of the Eurex Derivatives, Eurex Bonds and Eurex Repo via the Integrated Clearer (IC).

For the Eurex Bonds and Eurex Repo markets, Eurex Clearing AG is planning to migrate these services from the IC to the Central Counterparty (CCP) functionality in Q1/2005.

With the implementation of CCP Release 3.0, Eurex Clearing will expand the CCP services for the Fixed Income Market to include trade and delivery management functionalities analogous to those provided by the CCP for Equities today.

Together with the attached “FI CCP Fundamentals”, this circular outlines the new functionalities the participants of Eurex Bonds and Repo will benefit from. The enclosed Communication Calendar provides a comprehensive overview of the CCP Release 3.0 member documentation and software kits including publication dates.

Kindly note that we have enclosed a faxreply with which we invite the participants of Eurex Bonds and Eurex Repo to name the project coordinator for the upcoming CCP Release 3.0 implementation activities.

CCP Release 3.0 Announcement

Currently, Eurex Clearing AG offers clearing services to participants of the Eurex Derivatives, Eurex Bonds and Eurex Repo via the Integrated Clearer (IC). Here, Eurex Clearing AG acts as the central counterparty by interposing itself between the parties which conclude trades and thus allows the members to benefit from a reduction in counterparty risk, post-trade anonymity and central risk margining.

For the Eurex Bonds and Eurex Repo markets, Eurex Clearing AG is planning to migrate the aforementioned IC services to the Central Counterparty (CCP) functionality in Q1/2005. With the implementation of CCP Release 3.0, Eurex Clearing will expand the CCP services for the Fixed Income Market to include trade and delivery management functionalities analogous to those provided by the CCP for Equities.

The migration of the IC for Eurex Bonds and Eurex Repo to the CCP for Fixed Income products (FI CCP) aims at harmonizing existing processes and connections in multiple markets. It will allow participants of Eurex Bonds and Eurex Repo to access Gross Delivery Management and to benefit from Settlement Netting and CSD Netting. These functionalities provide for flexible delivery management, efficient failure management, a reduction in settlement instructions, a decrease in cross border settlements on market participant level and facilitate higher straight through processing (STP) rates.

The attached “FI CCP Fundamentals” provide a comprehensive summary of the functionality which will be provided to the participants of Eurex Bonds and Eurex Repo with the launch. For the planned publication dates and a comprehensive overview of the CCP 3.0 member documentation, we recommend viewing the enclosed CCP Release 3.0 (FI CCP) Communication Calendar.

Kindly note that we have enclosed a faxreply with which we invite you to name the project coordinator for the upcoming FI CCP implementation activities. Please return this form to the indicated fax number +49-69-211-1 16 61 until September 30, 2004.

Frankfurt, September 24, 2004

Eurex Clearing AG
D-60485 Frankfurt am Main
www.eurexchange.com

Customer Support
Tel. +49-69-211-1 17 00
Fax +49-69-211-1 17 01

Management Board:
Rudolf Ferscha, Daniel Gisler
Peter Reitz, Jürg Spillmann
Michael Widmer, Thomas Lenz



CCP Release 3.0

FI CCP Fundamentals

Table of Contents

1	Management Summary	**3**
2	FI CCP Outline	**3**
2.1	**Supported Platforms**	**3**
2.2	**Products**	**3**
2.3	**Parameters**	**3**
2.4	**Eligible Trades**	**4**
2.5	**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**	**6**
4.3	**Settlement Netting**	**6**
4.4	**CSD Netting**	**6**
4.5	**Corporate Event Management**	**7**
5	Risk, Collateral and Cash Management	**8**
5.1	**Risk Based Margining**	**8**
5.2	**Collateral Management**	**8**
5.3	**Cash Management**	**8**
6	Reporting and Trade Referencing	**9**
6.1	**CCP Reports**	**9**
6.2	**Trade Reference Fields**	**9**
7	Infrastructure Requirements	**10**
8	Contacts	**10**

1 Management Summary

This document describes the functional and technical model of the Central Counterparty for Fixed Income products (FI CCP). The currently implemented CCP Release 2.0 for equities provides the core functionalities for the FI CCP. The implementation of the FI CCP allows for the migration of Eurex Bonds and Eurex Repo clearing from the Integrated Clearer (IC) to the Central Counterparty functionality and represents the basis for connecting further trading venues.

The introduction of the Central Counterparty for Fixed Income affects the systems, processes and the organizational setup of the market participants themselves as well as the relations among them.

With this third CCP Release, the new functionalities will be introduced for all eligible outright bonds and repos traded on Eurex Bonds and Eurex Repo.

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

2 FI CCP Outline

2.1 Supported Platforms

The extended Central Counterparty services will be offered for bond trades and repo trades traded at Eurex Bonds GmbH respectively Eurex Repo GmbH.
The eligibility of bonds and repos will depend on the underlying product and the respective underlying parameters.

2.2 Products

The FI CCP will be offered for all products that are tradable on the admitted platforms at the time of the launch. Currently, German Government Bonds, European Jumbo Mortgage Bonds, German State Bonds, European Government Bonds and Eurobonds represent the eligible product scope.

2.3 Parameters

The parameters by which the eligibility is defined encompass issuing country, minimum issuing volume and rating classification, the availability of reliable master data and the currency.

2.4 Eligible Trades

Regarding eligible trades, the CCP supports bonds trades (outright cash trades and cash leg trades of basis trades) as well as fixed-rate repo trades (special and general collateral).

2.5 Supported CSDs

As today, the FI CCP will support multiple settlement depositories including CSDs and (I)CSDs like Clearstream Banking Frankfurt (CBF), Clearstream Banking Luxembourg (CBL), Euroclear (EOC) and Sega/Intersettle (SIS).

3 Member Structure

With the introduction of the CCP for equities, the Eurex clearing structure was integrated within the existing trading and settlement structure of the cash market. This structure will be also be valid for the FI CCP with regard to the fixed income market, as it is in line with current Integrated Clearer (IC) solution.

4 Trade and Delivery Management Services

After trading, bond trade transactions (buy and sell side) and bond repo trade transactions (buy and sell side of front and term leg of a repo trade) will be automatically transferred from the trading location to the CCP. After their validation, they will be registered for further processing. The usage of the provided functionalities is optional and not stringently required to manage the clearing and settlement.

4.1 Gross Delivery Management functionality

Trade Management will be facilitated by the Gross Delivery Management (GDM), which provides Clearing Members and/or Settlement Institutions with the possibility to perform trade allocation and forwarding for internal processing on 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 SWIFT network.

All trades will be available for Gross Delivery Management directly after trade execution. Here, the following transactions can be performed:

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

Block, Release, Partial Release of Trades
Sell trades can be blocked to avoid their settlement and released to trigger settlement processing.

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 sell trades are settled on the level Clearing Member (CM) – Customer if the associated buy 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

CCP trades can either be settled by standard settlement or via real-time settlement

Standard settlement comprises Settlement Netting and CSD Netting. It is the settlement method for most trades processed by the FI CCP.

Real-time Settlement (RTS) is applicable for front legs of overnight repos (e.g. specials or Euro GC Pooling) for which the original counterparties have chosen the same settlement location (e.g. CBF).

For these trades, delivery instructions will be created and forwarded to the CSD as soon as they are registered within the FI CCP. Settlement Netting is not intended for these trades.

4.3 Settlement Netting

Based on the member's Gross Delivery Management activities, settlement instructions will be created by the FI CCP. Trades that are marked net, for standard settlement processing, which are not blocked and which have reached the contractual settlement date are subject to 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 cash payments and net delivery instructions. 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.

4.4 CSD Netting

After Settlement Netting per CSD, which determines the surplus and gross obligation that will be settled, CSD Netting takes place. CSD Netting aims at reducing cross border deliveries to a minimum by bundling trades for all supported CSDs and markets.

As the FI CCP supports the settlement of instruments in multiple (I)CSDs, CSD Netting enables the optimization of delivery instructions within one CSD and thus reduces cross border deliveries.
This process is performed after the completion of Settlement Netting per CSD, which determines the surplus and gross obligation that are to be settled. Settlement Netting does not define the settlement location per delivery – this is done within CSD Netting.

4.5 Corporate Event Management

As today, coupon compensations are assumed to be the only corporate event for Fixed Income products to be performed automatically.

In general, coupon payments are instructed by the CCP in case a settlement (for an outright trade or for a single leg of a buy-sell-back repo trade) is late on a record date of an interest event or a record date of an interest event occurs between the front leg and the term leg of a classic repo trade.
If the coupon payment is for a late settlement, the payment will be deducted from the seller and paid to the buyer. If the coupon payment occurs during the lifecycle of a repo trade, the payment will be deducted from the buyer and paid to the seller.
Compensation payments can be performed via members' Bundesbank accounts or via Euroclear or CBL cash accounts, if desired.

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 report risk positions to Clearing Members for their and their customer and NCM positions and transactions as long as these remain open.

With the introduction of CCP Release 3.0, the established Risk Based Margining concept will be aligned, to accommodating the Settlement Netting functionality. If the member does not intend to participate in Settlement Netting, trades are processed gross and therefore these trades 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.

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 of reducing their margin deposit requirements by bundling highly correlated exposures and allowing their risks to offset.

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 sub-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 is performed, as for the Equity CCP, within the Eurex Core system. There is no impact regarding the FI CCP core. Compared to the IC there are no changes scheduled.

5.3 Cash Management

Cash accounts (per CM) serve to settle cash-only instructions at any of the supported payment locations (BuBa, CBL, EOC). For the settlement of margin calls, the Clearing Member has to hold an account at a central bank (BuBa, SNB).

For the FI CCP, each member has to specify one cash-only account (including the respective payment location) per settlement account for settling cash-only instructions out of the offsetting block and for coupon compensations.

In general, full flexibility is given to the members regarding the choice of the supported payment locations for settling cash-only instructions from the offsetting block and for coupon compensations. However, according to Eurex Clearing regulations, a member who settles its trades via CBF has to open an account at BuBa for the cash-only instructions due to the "New German Settlement Model".

6 Reporting and Trade Referencing

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:

6.1 CCP Reports

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. In contrast to the Equity CCP, trades received by Eurex Bonds/Eurex Repo on the current day are shown with the transaction type “NEW”

Pending Delivery Before NTP

This report contains all pending trades. In contrast to CE260 (see below), this report does not contain the Night-Time Processing (NTP) settlement results for the next business day. This report will be produced each business day during end-of-day processing.

CE260 Pending Delivery

This report contains all pending trades and considers the NTP settlement results. It will be produced after NTP in the morning of the next business day.

CE 270 Settled Delivery

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

6.2 Trade Reference Fields

In addition to the Equity CCP, Eurex Clearing provides further information fields in these reports. With CCP Release 3.0 a trade will be uniquely referenced by Trade Location, Trade Date, Trade Number, Leg Number, Order Number and ISIN.

7 Infrastructure Requirements

A dedicated connection to the 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
- i-Access - single (or double) connections by means of the internet
- i-Browser Access – workstation connection via the internet whereby a browser provides access to the system. No MISS required on member side.

Detailed information on the changes and connection options envisioned for CCP Release 3.0 will be provided with the Release Notes.

8 Contacts

To ensure continuos customer support with respect to CCP Release 3.0, Eurex Clearing has set up a FI CCP Change Management Team. For questions and incitements cohesive to the upcoming implementation of CCP Release 3.0, please contact:

FI CCP Change Management Team

Neue Börsenstraße 1

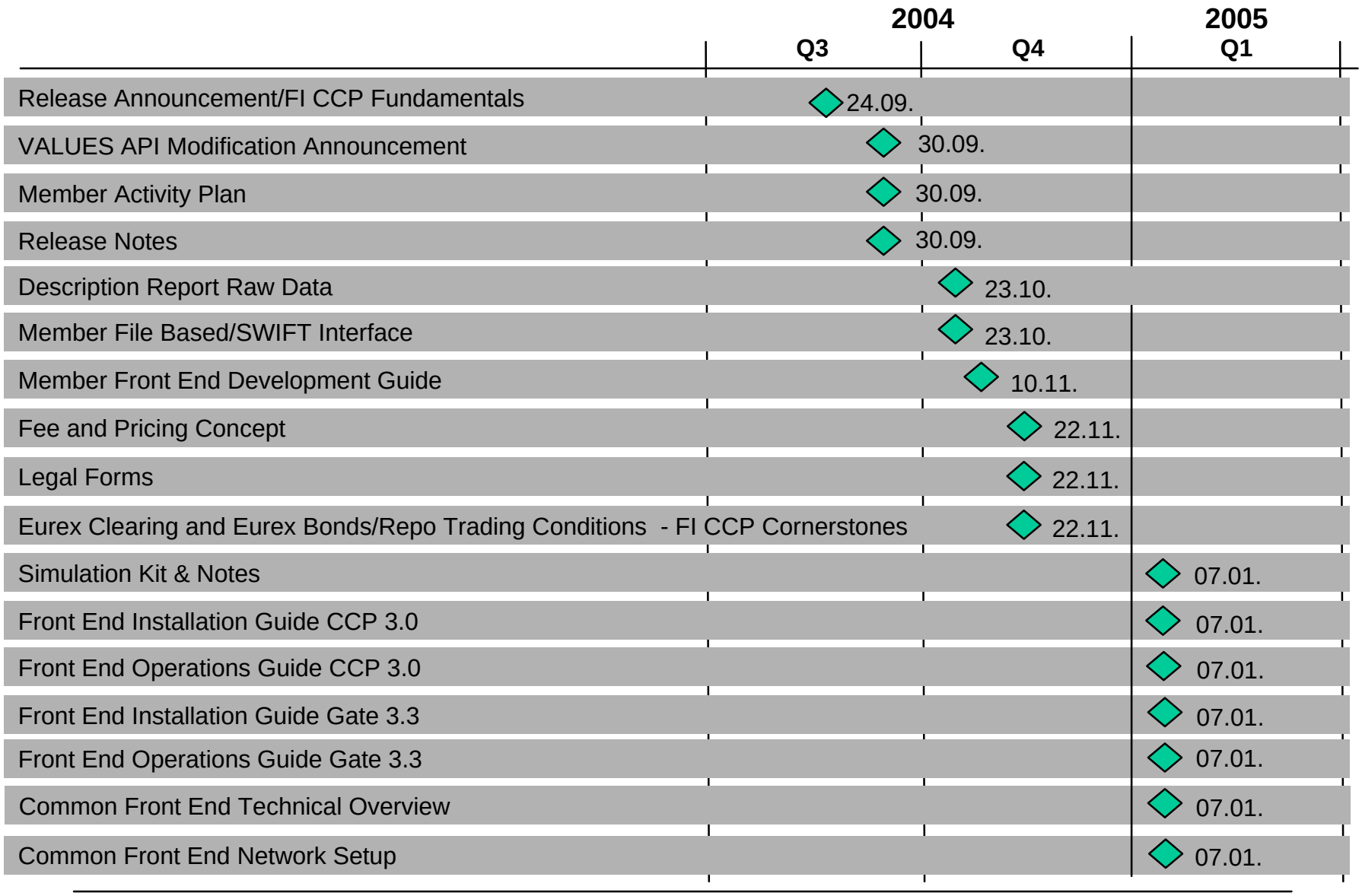
D 60487 Frankfurt

Telephone: +49-69-211-1 16 60

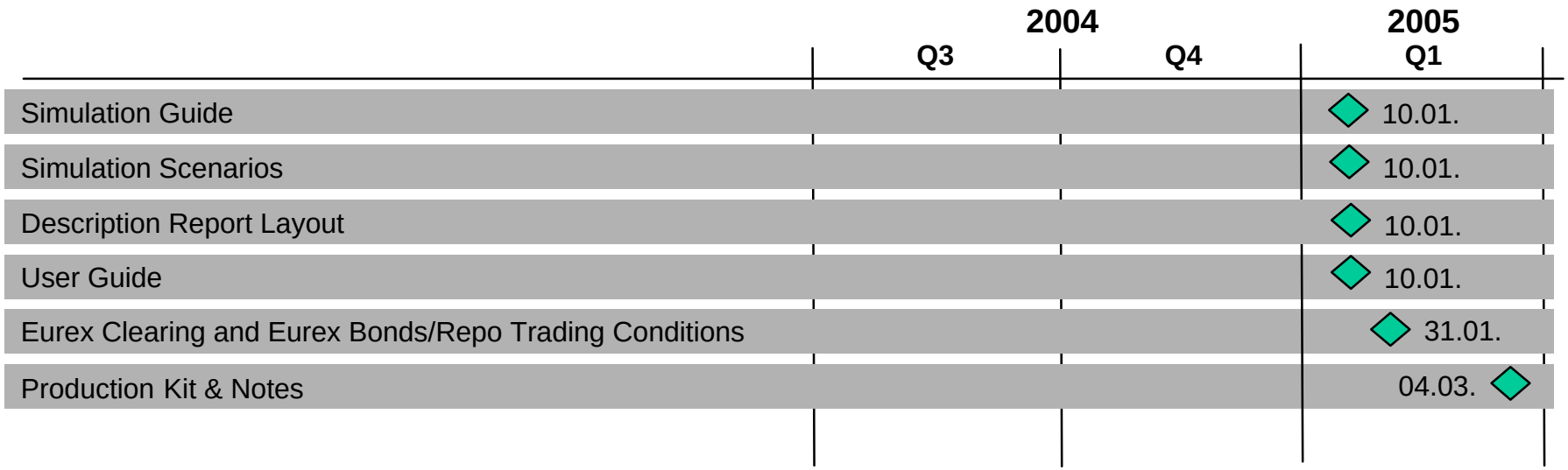
Fax: +49-69-211-1 16 61

E-Mail: ccp.fi@eurexchange.com

CCP Release 3.0 (FI CCP)
Communication Calendar



CCP Release 3.0 (FI CCP)
Communication Calendar



Faxreply

CCP Release 3.0 Project Coordinator

Please return this form to the number given below until **September 30, 2004**

CCP Release 3.0
FI CCP Change Management Team **Fax +49 - (0)69 - 211-1 16 61**

To be returned by participants of Eurex Bonds & Eurex Repo only!!!

Sender:

Member name and ID _____ _____
Name _____
Function _____
Telephone _____
E-Mail _____

We nominate the following employee(s) as Project Coordinator for the introduction of CCP Release 3.0, who will serve as Single Point of Contact for the FI CCP Change Management Team:

Please indicate whether the nominated person represents the Project Coordinator for Bonds, Repo, or both by ticking the appropriate box.

Project Coordinator ☐ **Eurex Bonds** ☐ **Eurex Repo** ☐ **both**

Name _____
Function _____
Telephone _____
Fax _____
E-Mail _____

Project Coordinator ☐ **Eurex Bonds** ☐ **Eurex Repo**

Name _____
Function _____
Telephone _____
Fax _____
E-Mail _____

Thank you for your support!

_____
Signature