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Global Clearing Link – Usage of Account Types at Eurex for NCMs who clear via The Clearing Corporation

Related Eurex Circulars: 151/04

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Content may be most important for:	**Attachment:**
➲ All Departments	Usage of Account Types at Eurex for NCMs who clear via The Clearing Corporation

With the roll out of Phase 1 of the Global Clearing Link, clearing participants of The Clearing Corporation will be able to clear specific EU products traded on Eurex.

In order to permit compliance with U.S. Segregation Rules, the attached document describes the usage of Account Types at order entry by NCMs who clear through clearing participants of The Clearing Corporation on a general level. In addition, a list of selected business scenarios is provided which further illustrates the correct usage of Account Types with regard to segregated and non-segregated business.

The document is also available in the Member Section of the Eurex website. To download your personal copy please visit the Eurex website under the following path:

www.eurexchange.com > Member Section > Documentation/Manual GCL > EU Link.

If you have any further questions with regard to the Global Clearing Link please do not hesitate to contact the GCL Customer Support Team at the number indicated above or write an e-mail to: customer.support@eurexchange.com.





Global Clearing Link for EU Products

Usage of Account Types at Eurex for NCMs clearing via The Clearing Corporation

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In connection with the Global Clearing Link for European products which will allow clearing participants of The Clearing Corporation to clear certain Euro-denominated products traded on Eurex trading terminals, Eurex Clearing AG will act solely as a facilitator for The Clearing Corporation by providing the system and settlement infrastructure to clear the aforementioned products.
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IMPLEMENTATION OF THE GLOBAL CLEARING LINK FOR US PRODUCTS AND FOR CROSS LISTED EU PRODUCTS ON EUREX US DESCRIBED IN THIS PUBLICATION IS SUBJECT TO RECEIPT OF ALL REQUIRED REGULATORY APPROVALS. THEREFORE, THE CONCEPTS AND OTHER INFORMATION PRESENTED HEREIN ARE SUBJECT TO CHANGE.

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1 Introduction

With introduction of Phase 1 of the Global Clearing Link clearing participants of The Clearing Corporation will be able to clear specific EU products[1] traded on Eurex.

In order to comply with U.S. segregation rules, it is crucial for NCMs clearing through clearing participants of The Clearing Corporation to note the changes in the usage of Account Types for order entry at Eurex.

This document describes the usage of Account Types at order entry for NCMs clearing through clearing participants of The Clearing Corporation on a general level. In addition, a list of selected business scenarios is provided which further illustrates the correct usage of Account Types with regard to segregated and non-segregated business.

[1] EUR-denominated products permitted to be traded on Eurex trading terminals in the U.S. pursuant to CFTC staff no-action letter

2 Definitions

It is vital for the correct usage of Account Types at Eurex with introduction of the Global Clearing Link Phase 1 to have a defined understanding of the following terms:

2.1 General terms

- **Affiliate**– Affiliate refers to a business entity under common ownership with the NCM as per CFTC rules that is trading in products listed at Eurex.
  The definition of "Affiliate" is a basis for the usage of Account Types at Eurex with introduction of the Global Clearing Link Phase 1.
- **Qualified Employees** (For purposes of this document only) – A Qualified Employee is an employee at a NCM and/or clearing participant or an affiliate whose personal commodity futures account would qualify as a proprietary account under CFTC Rule 1.3(y). Note that the personal accounts of any other employee could be subject to CFTC segregation rules.

2.2 Account type

All Eurex NCMs are reminded that Exchange Rules require the accurate usage of Account type codes for each Eurex transaction. Eurex Account Types define agent, principal, and market maker business from an execution perspective.

Generally, Eurex provides five different Account Types:

- **Account type = A1** – is used for agent business
- **Account type = P1 or P2** – are used for proprietary business
- **Account type = M1 or M2** – are used for market making business

Further give-up accounts are used to transfer trades from one member to another. The **G1** account is the pre-designated give-up account; an explicit give-up has to be performed with it. Using the **G2** account, the give-up is done automatically to the NCM specified at order entry. Transactions entered with G1/G2 belong to the A1 account and are displayed as such.

2.3 Origin

This definition refers to illustrate the requirements set under CFTC rules, when clearing via The Clearing Corporation.

All NCMs clearing via clearing participants of The Clearing Corporation are reminded that CFTC requires accurate distinction of segregated and non-segregated accounts.

The Origin code characterizes segregated and non-segregated business from a clearing participant perspective to its customer. Valid values for futures and options are:

- **Origin 1 = Segregated** – An account established by the clearing participant solely for the purpose of clearing transactions on behalf of its customers.
- **Origin 2 = Non-Segregated** – An account established by the clearing participant solely for the purpose of clearing transactions through proprietary accounts as defined by CFTC Rule 1.3(y).

3 Usage of Account Types at Eurex

For the usage of Account Types at Eurex all definitions and instructions set by the Eurex rules and regulations remain valid. Generally the agent, principal and market maker position accounts have to be used for the following transactions:

- Agent Position Accounts (A)
  Only transactions carried out by an Exchange Participant on behalf of a customer shall be recorded in the Agent Position Account of such Exchange Participant.
- Principal Position Accounts (P)
  Only transactions carried out by an Exchange Participant for its own account shall be recorded in a Principal Position Account.
- Market Maker Position Accounts (M)
  Transactions resulting from quotes entered at Eurex shall be recorded in a Market Maker Position Account. Transactions resulting from orders as principal may, if appropriately designated, be recorded in a Market Maker Position Account.

In addition, in order to comply with CFTC segregation requirements the following rule applies for order and quote entry by NCMs clearing through clearing participants of The Clearing Corporation:

- Account Types **A1, P1, M1** are to be used for **segregated** business only (reflecting business of Origin 1)
- Account Types **P2, M2** are to be used for **non-segregated** business only (reflecting business of Origin 2)

It should be noted that, following CFTC segregation requirements for the private business of a qualified employee or the principal of the NCM, where the NCM is affiliated to the clearing participant, is non-segregated business and therefore has to be entered with Account Type P2.

Further, according to Eurex procedures, all G1 and G2 transactions are posted to the account A1 until take-up respectively if not taken-up. Therefore the give-up functionality can only be used for segregated business.

Changes from segregated to non-segregated business, and vice versa, consequently have to be performed by changes of Account Types within the Eurex system. Transfer functionalities used for account type changes include give-up/take-up, trade account transfer for same day transactions, member internal position account type adjustment, and member external position transfer. All transfer functionalities follow valid Eurex rules and regulations.

It should be noted that for any further processing within the system of The Clearing Corporation the same mapping of Account Types and Origin codes will be applied.

- All transactions in position accounts A1, P1, M1 will be mapped to Origin account 1.
- All transactions in position accounts P2, M2 will be mapped to Origin account 2.

4 Description of business scenarios

The following table gives an overview of selected business scenarios and serves as reference for valid Account type entry at Eurex if clearing via The Clearing Corporation.

The column **'customer categories'** lists different possible final beneficiaries of the transaction and the relation to the respective clearing participant who clears the transaction as well as to the executing NCM. If no relationship is mentioned, this means that the final beneficiary and the NCM and/or the clearing participant do not stand in any relation to each other. In general the list contains two different categories, which are private customers and proprietary business of NCMs and affiliates.

The column **'channel used for trade execution'** describes through which intermediaries the transaction is executed. Either the final beneficiary is placing the order directly to the executing NCM or the final beneficiary is instructing an intermediary, which could be a non-member intermediary or a member that does not execute the transaction in the scenario. In the table an 'X' indicates if an intermediary is used within the scenario. It is important to note that an intermediary has the duty to inform the executing NCM about his relationship to the final beneficiary or to such said customer. In the column **'executing NCM'** a distinction is made if the transaction is agent, proprietary or market maker business from the standpoint of the executing NCM. Whenever the final beneficiary is a NCM and no intermediary is used, the final beneficiary equals the executing NCM. The executing NCM has no relationship to the clearing participant, if not stated differently in the column 'customer categories'.

The column **'order entry'** refers to how the transaction is to be entered by the executing NCM. It lists valid Account Types for the form of transaction to be used at order entry as well as the Origin code implicitly reflected by the transaction.

Examples:

#	Customer categories	Channel used for trade execution			Order entry					
					Account type					Origin
		Intermediary without trading license	Intermediary with trading license, but not executor	Executing NCM	P1	P2	M1	M2	A1	(1/2)
1	Private customer			Agent					X	1
17	Proprietary business of a NCM, where the NCM is the same legal entity as the clearing participant			Principal		X				2
18	Proprietary business of a NCM, where the NCMis the same legal entity as the clearing participant			Market Maker				X		2

For scenario 1 the final beneficiary of the respective transaction is a private customer without any relation to the executing NCM or the clearing participant. Scenarios 17 and 18 reflect the proprietary business of the clearing participant, executed as a NCM.

In these examples no intermediary for placing the orders is used. The channel of trading is direct from the final beneficiary to the executing NCM. While scenario 1 is agent business from the executing NCMs view, scenario 17 and 18 reflect proprietary and market maker business.

As in scenario 1 from the executing NCMs perspective agent business is performed, the Account type to be entered is A1; no affiliation of the executing NCM and the clearing participant exists, therefore this reflects segregated business, i.e., Origin 1.

In scenarios 17 and 18 valid Account Types are P2 or M2 depending on the purpose of the transaction. The NCM is the same legal entity as the clearing participant, therefore correct Origin is 2, meaning this reflects non-segregated business.

#	Customer categories		Channel used for trade execution			Order entry					
						Account type					Origin
			Intermediary without trading license	Intermediary with trading license, but not executor	Executing NCM	P1	P2	M1	M2	A1	(1/2)
1	Private customer	Private customer			Agent					X	1
2		Private customer		X	Agent					X	1
3		Private customer , qualified employee of the clearing participant			Agent					X	1
4		Private customer, qualified employee of the clearing participant		X	Agent					X	1
5		Private customer, qualified employee of the NCM, where the NCM is affiliated[1] to the clearing participant			Agent		X				2
6		Private customer, qualified employee of the NCM, where the NCM is affiliated[1] to the clearing participant		X	Agent					X	1
7		Private customer, which is the principal of the clearing participant			Agent					X	1
8		Private customer, which is the principal of the clearing participant		X	Agent					X	1
9		Private customer, which is the principal of the NCM, where the NCM is affiliated[1] to the clearing participant			Agent		X				2
10		Private customer, which is the principal of the NCM, where the NCM is affiliated[1] to the clearing participant		X	Agent					X	1

[1] Affiliate refers to a business entity that is under common ownership with the member that is permitted by Eurex US and CFTC Rules to directly access the Trading System.

#	Customer categories		Channel used for trade execution			Order entry					
						Account type					Origin
			Intermediary without trading license	Intermediary with trading license, but not executor	Executing NCM	P1	P2	M1	M2	A1	(1/2)
11	Proprietary business	Proprietary business of a NCM			Principal	X					1
12		Proprietary business of a NCM			Market Maker			X			1
13		Proprietary business of a NCM		X	Agent					X	1
14		Proprietary business of a NCM, where the NCM is affiliated[1] to the clearing participant			Principal		X				2
15		Proprietary business of a NCM, where the NCM is affiliated[1] to the clearing participant			Market Maker				X		2
16		Proprietary business of a NCM, where the NCM is affiliated[1] to the clearing participant		X	Agent					X	1
17		Proprietary business of a NCM, where the NCM is the same legal entity as the clearing participant			Principal		X				2
18		Proprietary business of a NCM, where the NCM is the same legal entity as the clearing participant			Market Maker				X		2
19		Proprietary business of a NCM, where the NCM is the same legal entity as the clearing participant		X	Agent					X	1

[1] Affiliate refers to a business entity that is under common ownership with the member that is permitted by Eurex US and CFTC Rules to directly access the Trading System.

#	Customer categories		Channel used for trade execution			Order entry					
						Account type					Origin
			Intermediary without trading license	Intermediary with trading license, but not executor	Executing NCM	P1	P2	M1	M2	A1	(1/2)
20	Proprietary business	Proprietary business of a firm, which holds no trading license			Agent					X	1
21		Proprietary business of a firm, which holds no trading license	X		Agent					X	1
22		Proprietary business of a firm, which holds no trading license		X	Agent					X	1
23		Proprietary business of a firm, which holds no trading license. This firm is affiliated[1] to the clearing participant while the executing trading participant is not affiliated to the clearing participant.			Agent					X	1
24		Proprietary business of a firm, which holds no trading license. This firm is affiliated[1] to the clearing participant while the executing NCM is not affiliated to the clearing participant.	X		Agent					X	1
25		Proprietary business of a firm, which holds no trading license. This firm is affiliated[1] to the clearing participant while the executing NCM is not affiliated to the clearing participant.		X	Agent					X	1
26		Proprietary business of a firm, which holds no trading license. This firm is affiliated[1] to the clearing participant and the executing NCM, which is also affiliated to the clearing participant.		X	Principal		X				2

[1] Affiliate refers to a business entity that is under common ownership with the member that is permitted by Eurex US and CFTC Rules to directly access the Trading System.