X-pand into the Future

e u r e x *information*

Date: Frankfurt, 06 June, 2001
Recipients: All Eurex Clearing members and vendors
Authorized by: Gregor Althoff

Equity Central Counterparty – CCP Information 19/01

Contact: Functional Member Readiness: Tel. +49-69-2101-1700

Content may be most important for:	**Attachments:**
➲ Equity Central Counterparty Coordinators	1. CCP Information 19/01 and current CCP presentation (Deutsch/ English)

Please find attached a copy of the Equity Central Counterparty information 19/01 sent to Xetra and FWB members and vendors yesterday.

It includes a slide presentation which summarizes the status following the first meetings of the Stock Exchange Council Sub-committee's task forces for Clearing and Settlement, Integration of Floor Trading, and Information Technology.

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CCP Information 19/01

Deutsche Börse

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Recipients: General, Trading Contacts, Back Office, System Administrator, Projekt Coordinator

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Central Counterparty – CCP
Current Presentation

June 5, 2001

Dear Sir or Madam,

We are happy to provide you with an updated presentation concerning the introduction of the Central Counterparty today.

Based on the core elements of the Central Counterparty the enclosed slides summarize the key subjects of the first meetings of the Task forces of the stock exchange council sub-committee's task forces (Clearing and Settlement, Integration of Floor Trading and Information Technology).

Should you have any further questions or require additional information, please do not hesitate to contact Xetra Change Management Team at

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Yours faithfully
On behalf of the Management

Enrico Isceri

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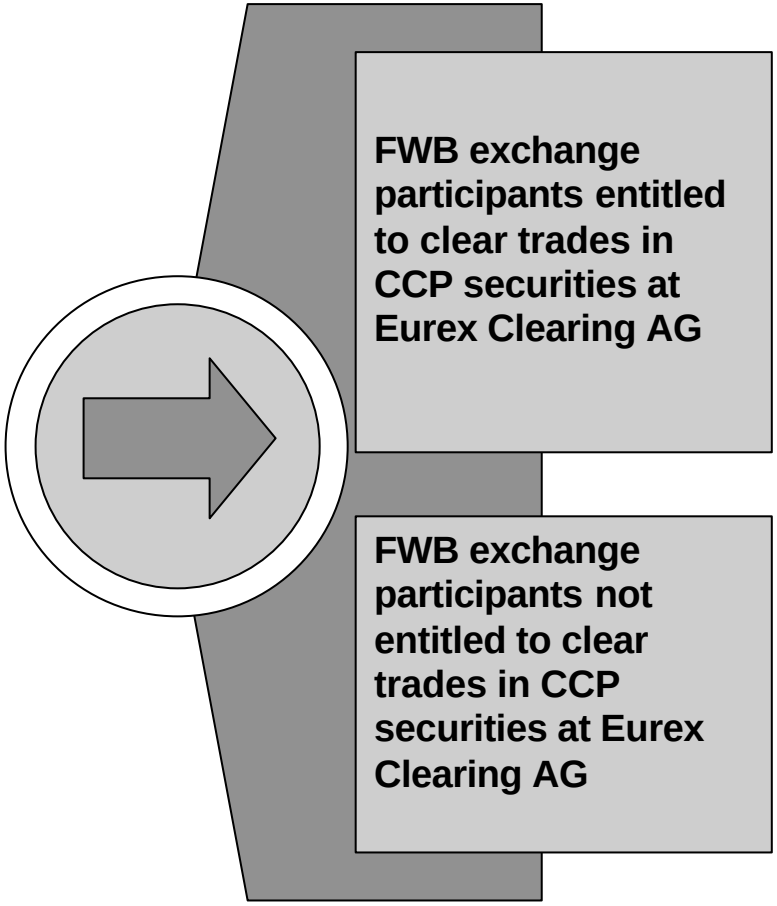
Introduction of an Equity Central Counterparty at the Frankfurt Stock Exchange - Summary of the first round of meetings of the Stock Exchange Council Sub-committee's Task Forces

Status: 05 June 2001

Agenda

- **Structure and scope of CCP**
  - Requirements for Clearing Members
- Clearing and Settlement
  - Risk Management
  - Functionalities
- Integration of Floor Trading
- Information Technology
- Introduction Process

Clearing Structure



- **General Clearing Member (GCM)**
  - Settlement of own trades, agent trades and trades of trading participants without clearing license (NCMs)
- **Direct Clearing Member (DCM):**
  - Clearing of own trades, agent trades and trades of 100 % associated trading participants without clearing license (NCMs)

- **Non-Clearing Member (NCM):**
  - Entry of principal/agent orders in the trading system
  - Clearing and settlement via the Clearing Member

- **Each Non-Clearing Member may have only one Clearing-Member for cash market transactions.**
- **A Non-Clearing Member may have different Clearing Members for derivates and cash market transactions.**

Requirements for Clearing Members

Confirmation of the Supervisory Authority

Requirements for the confirmation:

- Institutions need to be domiciled in the European Union or Switzerland.
- Admission of the supervisory authority in the country of origin to operate custody business, credit operation and receipt of collateral from customers in the form of securities or cash.
- Supervision by local authorities according to the directives of the European Union, or, if the institution is domiciled in Switzerland, by the ‚Eidgenössische Bankenkommission'.

Liable equity capital requirements

- EUR 25 million for General Clearing Members
- EUR 2.5 million for Direct Clearing Members

Contribution to the Clearing Fund*

- EUR 5 million for General Clearing Members
- EUR 1 million for Direct Clearing Members

Proof of a Euro account with the State Central Bank (LZB)

Proof of a securities and safe custody account with Clearstream Banking AG

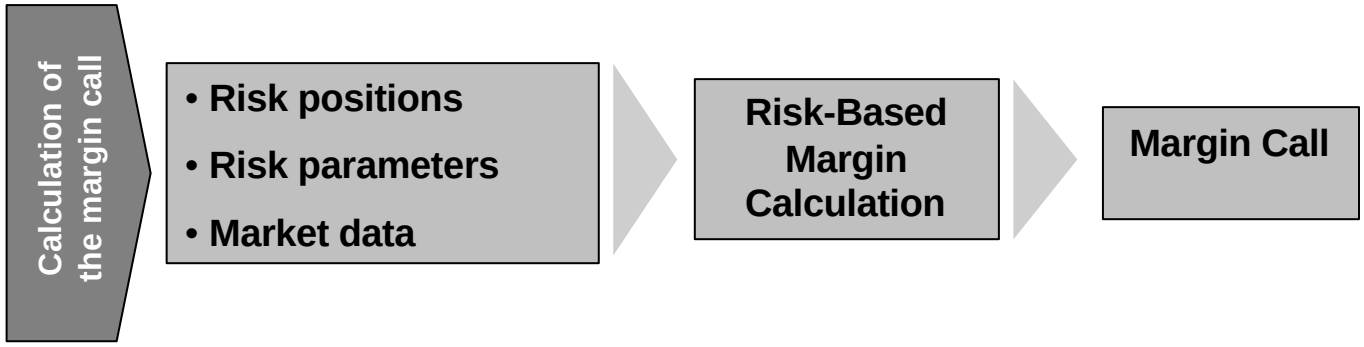
Current extract from the Commercial Register

*in addition to the existing Clearing Fund contribution

Agenda

- Structure and Scope of CCP
- **Clearing and Settlement**
  - **Risk Management**
    - Risk Management Core Elements
    - Risk -Based Margining Principles
    - Margin-Offsets/Margin Parameters
    - Comparison RBM vs. EK-Neu
    - Corporate Actions
  - Functionalities
- Integration of Floor Trading
- Information Technology
- Introduction Process

Risk Management Core Elements



Components of risk management

Risk-Based Margining

- Risk positions arise from pending deliveries.
- The most important risk parameter for the margin calculation is the (historical) volatility of the given security.
- Pending deliveries will be evaluated with end-of-day prices for margin calculation.
- The calculated margin requirement for securities trades may be reduced by opposite option positions in the same underlying (cross-margining).

Collateral Management

- Margin requirements are backed by collateral.
- The functionality of depositing collateral does not differ from the procedure already in place for Eurex. The same collateral are accepted.
- Collateral of each Clearing Member is kept separately from those of other Clearing Members and the Clearing Fund.
- The collateral are pledged with Eurex Clearing AG and the Clearing Members remain legitimate owners of the deposited collateral. They receive interest on the collateral deposited.

Risk-Based Margining Principles (1/2)

- **The existing Eurex method is transferred to stocks.**

- **The following basic principles are adopted:**
  - Each security is assigned to a specific margin class.
  - Only securities with the same risk may be assigned to the same margin class.
  - Different margin classes can be grouped into one margin group.
  - A margin group consists of different highly correlated margin classes with.
  - Assignment of an offset factor to each margin group. The offset factor considers the correlation of the specific margin classes.
  - Evaluation of all positions with the last exchange price.
  - Definition of an additional margin based on the volatility of the margin classes for coverage of risks incurred by future price movements.

Risk-Based Margining Principles (2/2)

- **Enhancements of the existing Eurex-Risk-Based Margining method:**
  - Valuation on the unit side and on the cash side.
  - Calculation of the current liquidation value for the unit side and the cash side (valuation on the basis of the last exchange price, discounted).
  - Update of the cash positions in case of a dividend/bonus payment.
  - Assignment of current units and cash positions to margin classes and offset of margin requirements within these classes.
  - Possibility of assessing Eurex options in the same margin class as their underlying, provided the underlying is covered by the CCP. This enables a cross-margining
    effect (particularly on expiry dates).
  - Treatment of subscription rights as non-standard option with the exception that analogous to stocks unit as well as cash sides are valuated since a settlement period of T+2 is applied.
  - Assignment of subscription rights to the same margin class as the underlying.
  - Separate margin requirements for stocks and derivatives.

Margin Offsets/Margin Parameters

Margin offsets

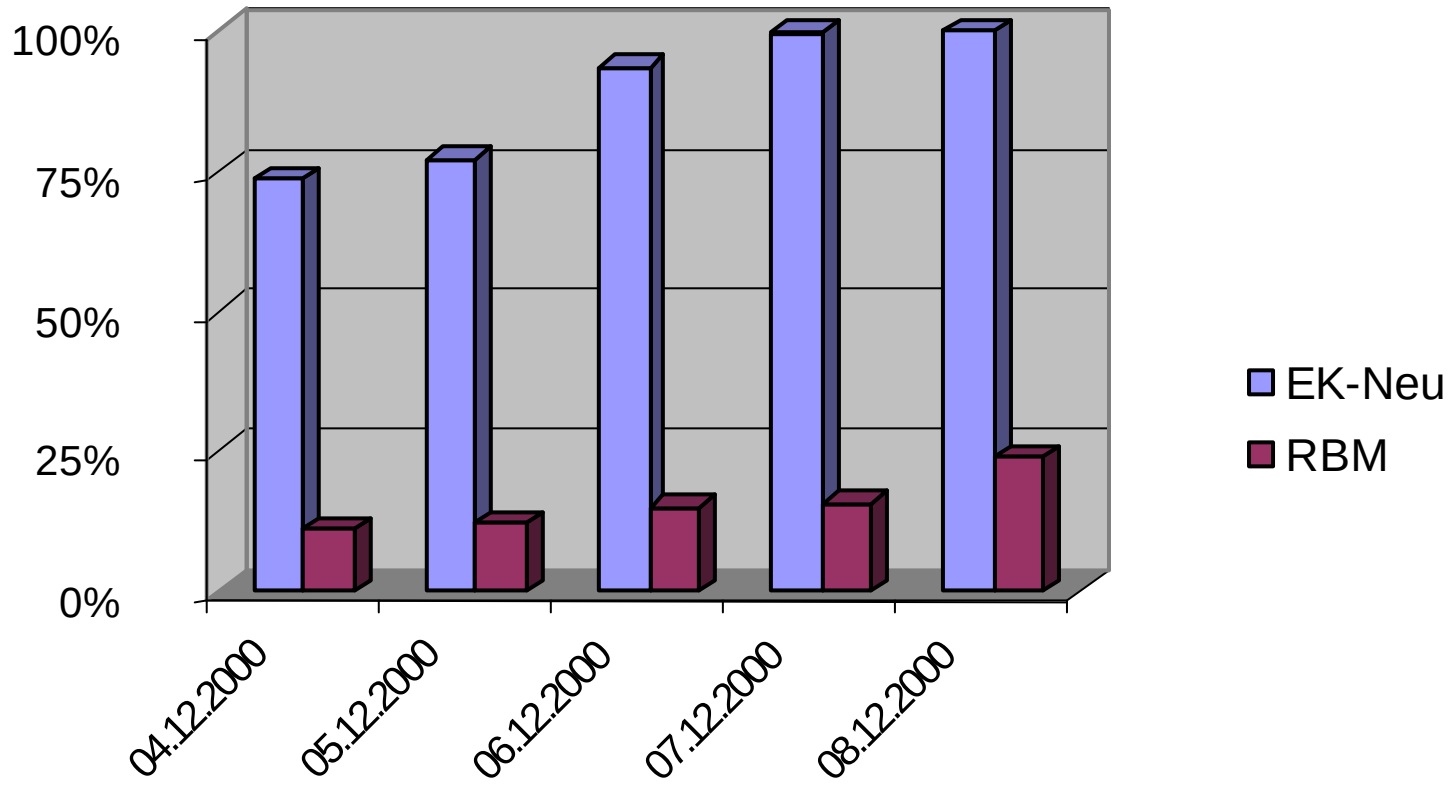
- Margin offsets define to which extent a margin calculation between different classes of a margin group is performed.
- In general, the usage of margin offsets analogous to the Eurex clearing model is possible.

Margin parameters

- Margin parameters define to which extent possible price movements are considered for the margin calculation.
- In a first step, it is planned to update margin parameters every five days.
- The update frequency may be increased in the future.
- Margin parameters will be provided via Eurex interfaces and via the Internet.

Comparison Risk-Based-Margining vs. EK-Neu (1/2)

Example of a large universal bank: Comparison EK-Neu vs. RBM*

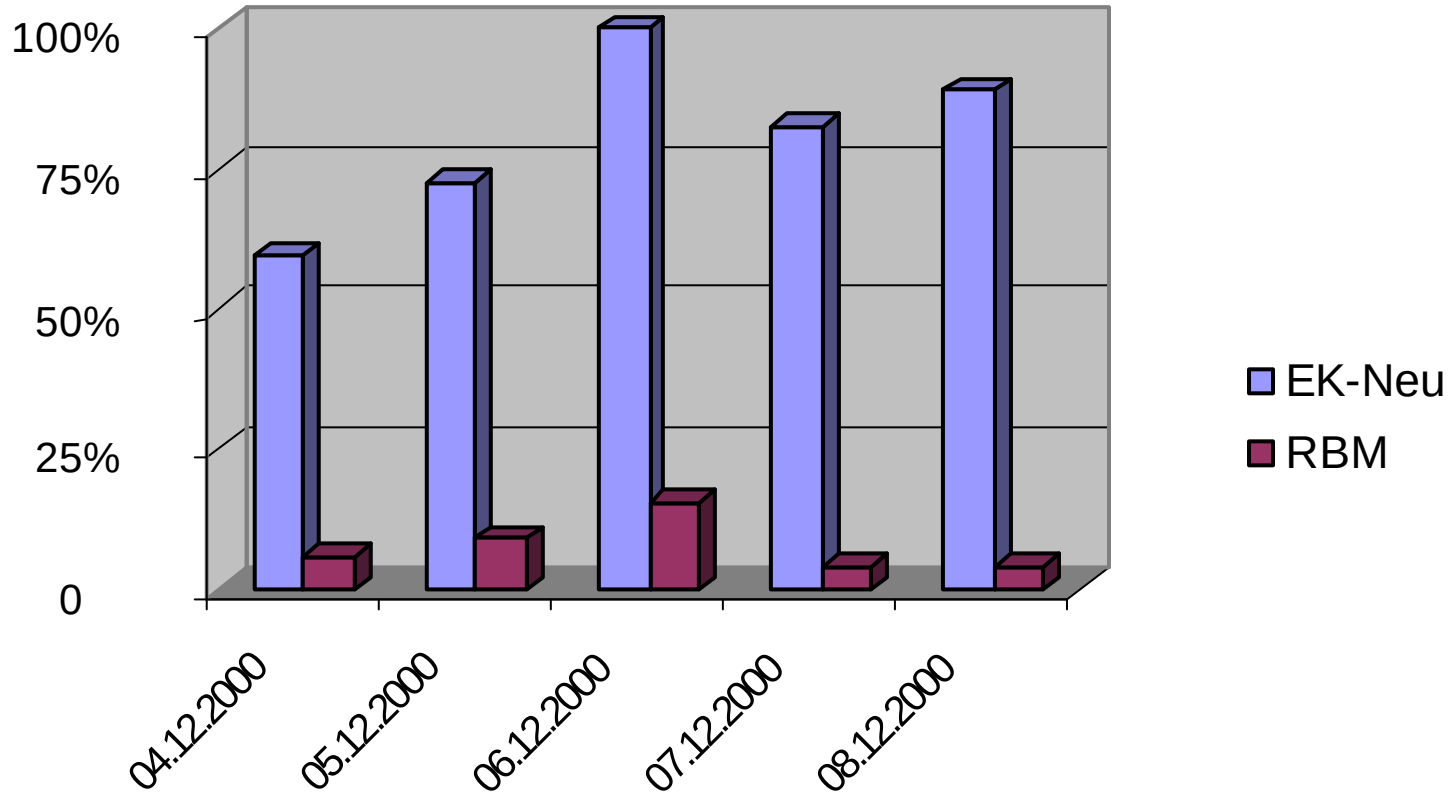


The average with RBM corresponds to 20% of EK-Neu.

* Risk-Based-Margining

Comparison Risk-Based-Margining vs. EK-Neu (2/2)

Example of a broker: Comparison EK-Neu vs. RBM*

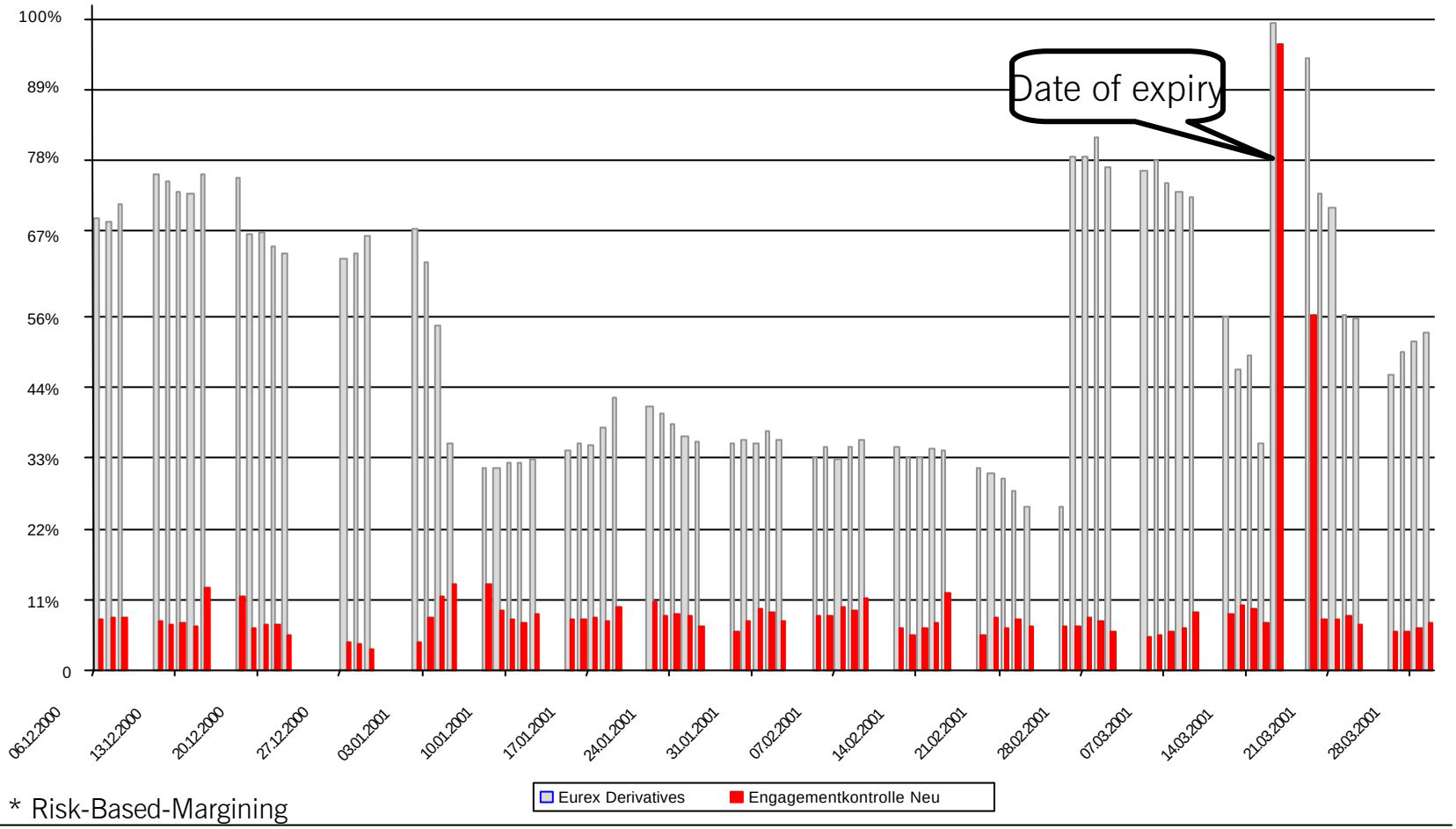


The average amount with RBM corresponds to 10% of EK-Neu.

* Risk-Based-Margining

Risk comparison: Eurex Derivatives Market (RBM*) vs. Cash Market (EK-Neu)

Example of a large universal bank: Risk Comparison



* Risk-Based-Margining

Corporate Actions

In general, the systems of Clearstream Banking Frankfurt provide processing concerning corporate actions. Thus, no action is to be taken by the CCP in the area of Delivery Management.

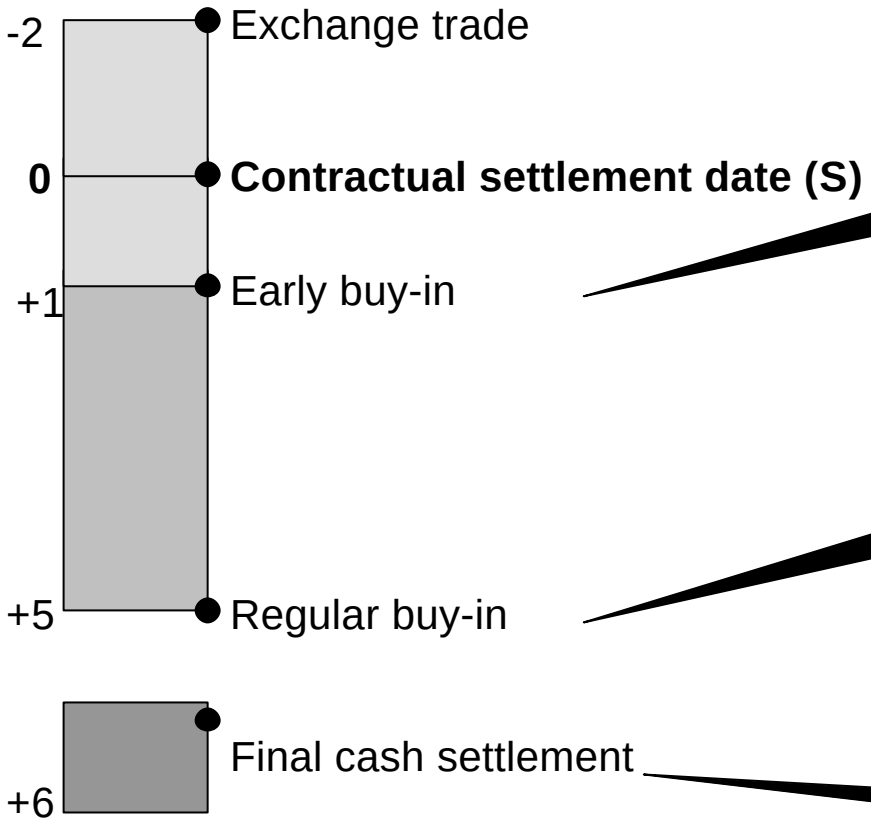
Within Risk Management, major corporate actions are considered via quantity-/quality-wise adjustment of securities and cash:

- Stock and reverse stock splits (automatic)
- Dividend payment/bonus payments (automatic)
- Capital increases due to the distribution of ordinary subscription rights („bedingte Kapitalerhöhung“) and conditional subscription rights („unbedingte Kapitalerhöhung“)
- Bonus shares (automatic)
- Spin-off/Merger (manually)

Agenda

- Structure and Scope of CCP
- **Clearing and Settlement**
  - Risk Management
  - **Functionalities**
    - Late Delivery Handling
    - Reduction of Technical Delivery Instructions
    - Shaping/Partial Deliveries
    - Give-up/Take-up
- Integration of Floor Trading
- Information Technology
- Introduction Process

Late Delivery Handling



Final stage

Early buy-in from S +1 onwards

- Performed at the discretion of the CCP

Buy-in

- Two attempts in one day, after SDS 2
- Abridged, one-day settlement cycle (settlement within STD, value date T+1) for stocks bought through a buy-in

Final cash settlement

- Final close-out of pending positions for risk minimisation

Late Delivery -
Contractual Fines & Interest for Late Delivery (1/2)

Recommendation of „Clearing & Settlement“ Task Force*:

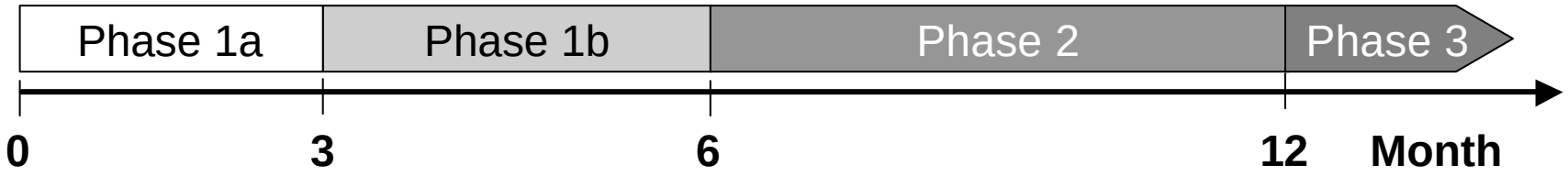
Introduction of contractual fines with the following parameters:

- Introduction of contractual fines and interests for late delivery within 3 phases.
- Final phase after 12 months.
- Division of the first phase into 2 parts of 3 months each.
- Testing of procedure within the first part.
- Amount of sanctions payable will be provided to each member but will not result in actual payment.
- Review of parameters 2 months after introduction of the Equity CCP

* 2nd meeting on May 10, 2001

Late Delivery - Contractual Fines & Interest for Late Delivery (2/2)

Recommendation of „Clearing & Settlement“ Task Force*:



- **Introduction of contractual fines***

0 %	0,02 %	0,03 %	0,04 %

- **Introduction of interest for late delivery****

0 %	+ 1,0 %	+ 1,0 %	+ 1,0 %

- **Minimum contractual fine**

0 €	250 €	250 €	250 €

- **Maximum contractual fine**

0 €	5.000 €	7.500 €	10.000 €

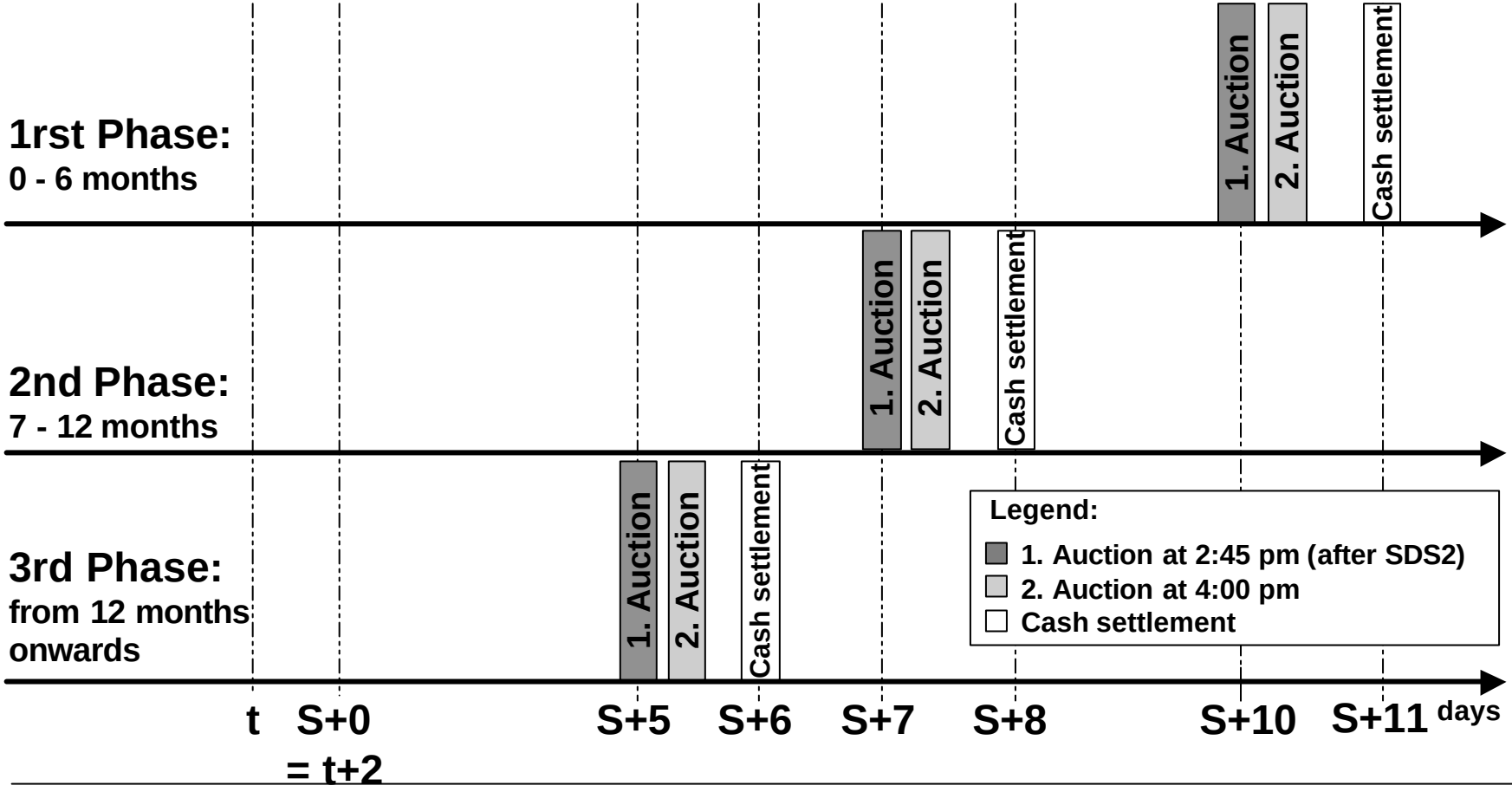
The assertion of further damage by Eurex Clearing AG as well as any other Clearing member not supplied within the stipulated period remains unaffected

* In percent per day regarding remaining units deliverable after offsetting
** In percent per year on the peak-refinancing rate regarding remaining units deliverable after offsetting

Late Delivery - Buy-In Process (1/2)

Recommendation of „Clearing & Settlement“ Task Force:

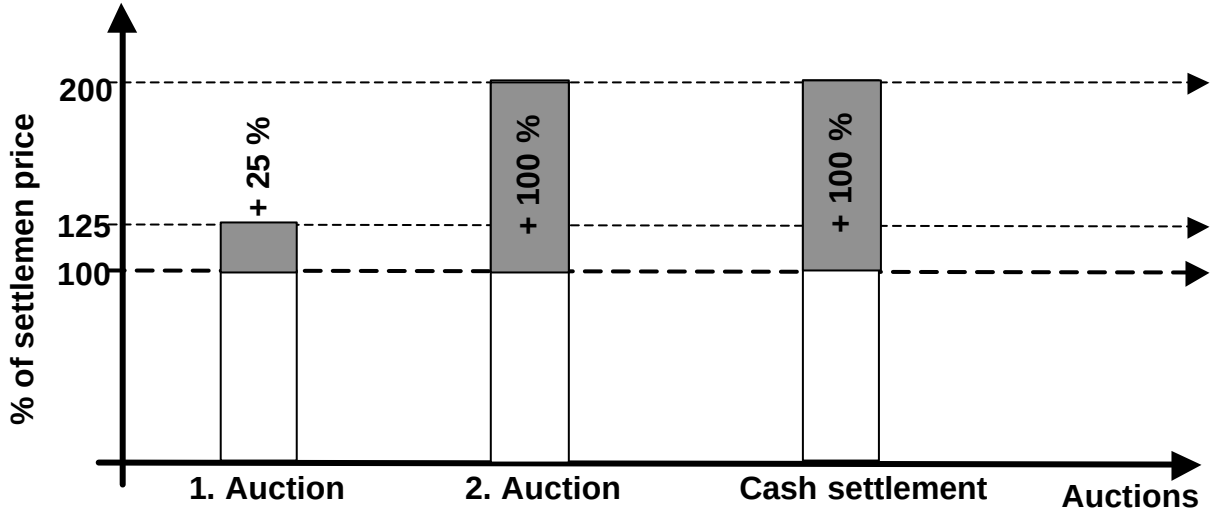
- Commencement of Buy-In Processes



Late Delivery - Buy-In Process (2/2)

Recommendation of „Clearing & Settlement“ Task Force:

- **Auctions’ starting price (mark-up on settlement/reference price):**
  - **1st auction with 25 % mark-up on final fixed settlement price (S + 5)**
  - **2nd auction with 100 % mark-up on final fixed settlement price (S + 5)**
- **If the buy-in fails, a cash settlement is executed at a price corresponding to the 2nd auction’s maximum price**



Reduction of Technical Delivery Instructions

Level of offsets on Xetra/ Floor

- Xetra: Free choice concerning the decision on which of the four possible levels a technical delivery instruction is generated:
  - no reduction
  - reduction on price level
  - reduction on order level
  - reduction on account level
- XONTRO: Free choice with respect to the two possible levels on which technical delivery instructions are generated is scheduled for the first release:
  - no reduction
  - reduction on account level

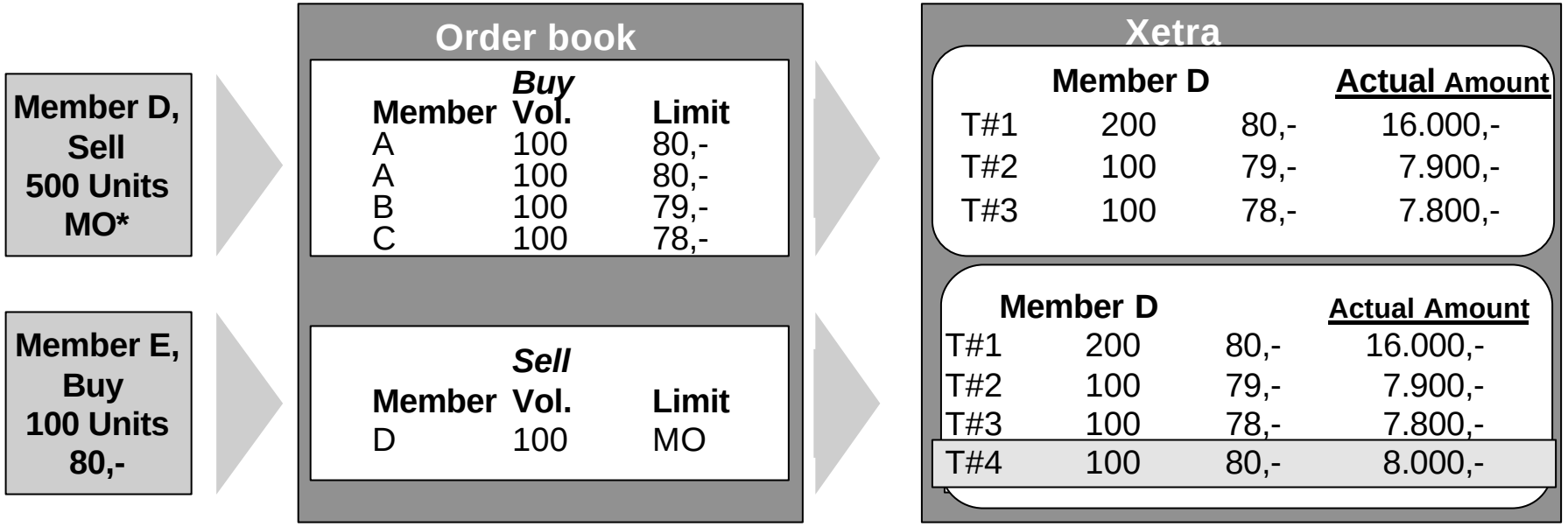
Agent- and Proprietary-trades

- No offset of agent against proprietary trades.
- In case of reduction on account level respectively a delivery instruction for agent as well as for proprietary orders is possible*.
- Separate Clearstream accounts are not mandatory for agent positions and proprietary positions but possible on request.

* Prerequisite: No Shaping

Calculation Example (I)
Price Level Reduction

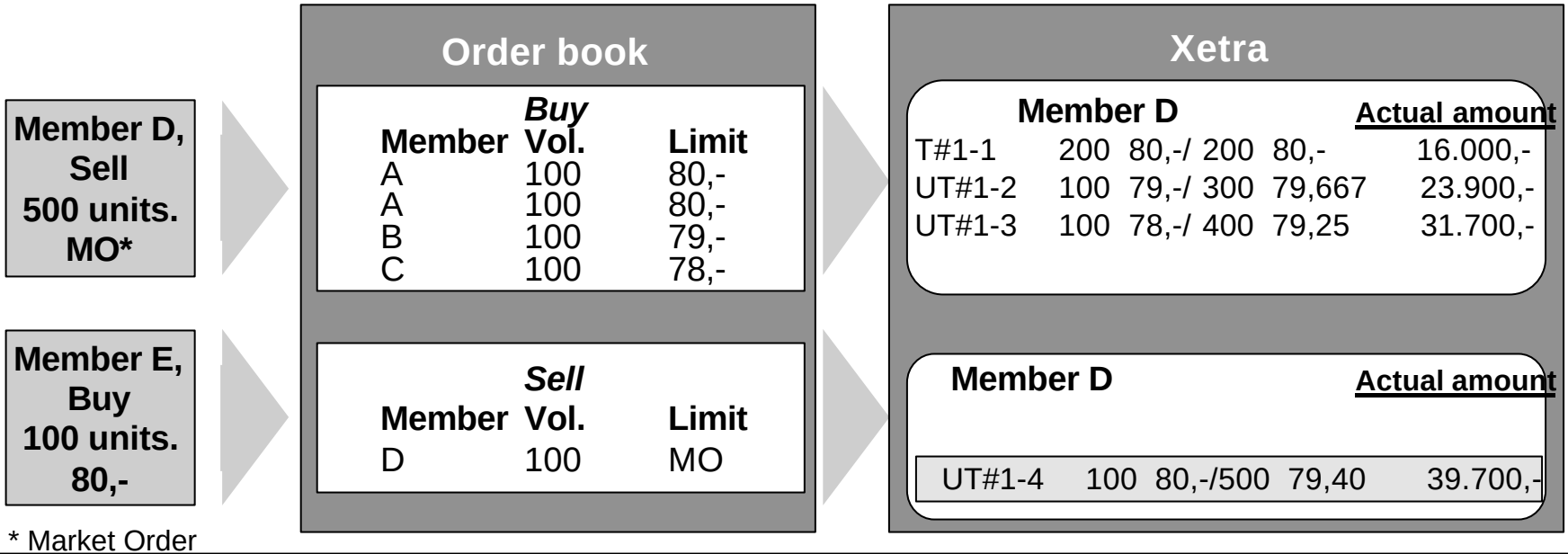
- Definition: All partial executions of an order at a specific price and execution time are grouped into one technical delivery instruction.
- Reduction on price-level is possible for all agent and proprietary trades.
- Should an order be (partially) executed when entered, one trade confirmation is dispatched per price. This means that several trades partially executed at the same price are grouped into one trade confirmation
- For each further partial execution, a new trade confirmation is generated.
- A trade confirmation with a new trade number is dispatched, irrespective whether the trade is executed at the same price or at a „new“ price.



* Market Order

Calculation Example (II)
Order Level Reduction

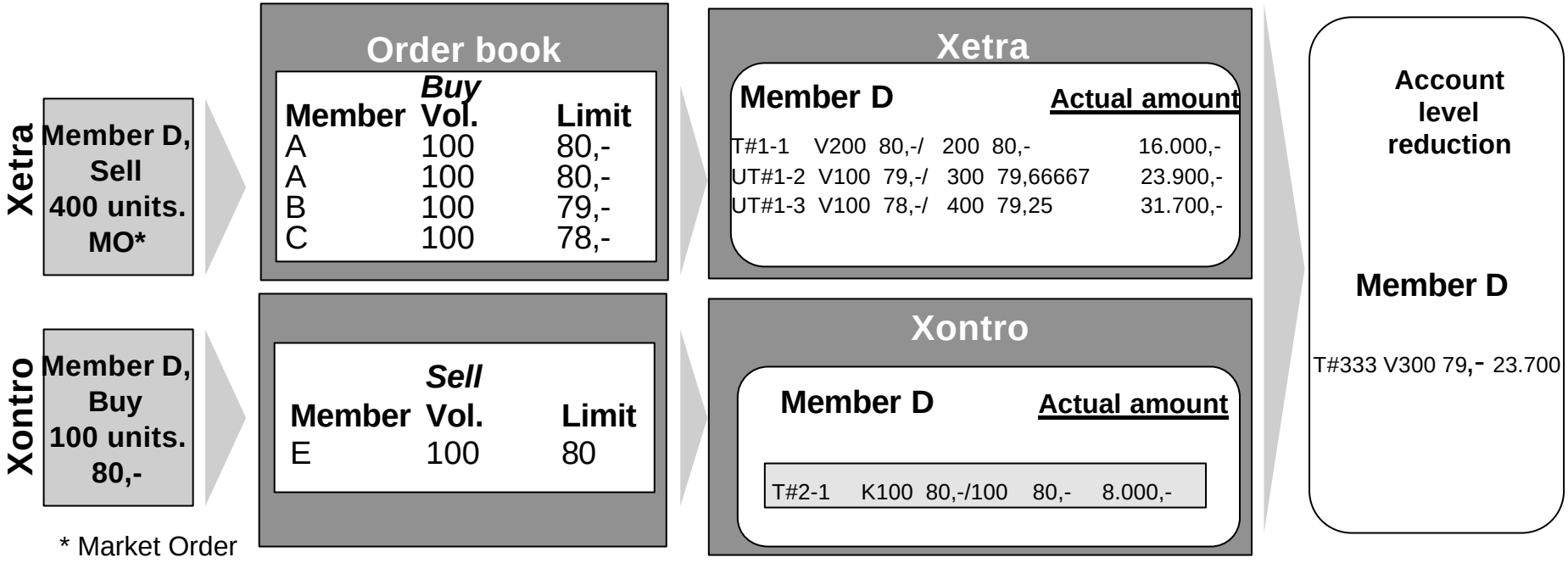
- Definition: All partial executions of an order at a specific trading day are grouped into one technical delivery instruction.
- Reduction on price level is possible for all agent and proprietary trades.
- Should an order be (partially) executed when entered, one trade confirmation and subsequently update trade confirmations are sent. This means that for each partial execution, data concerning the current partial execution as well as the accumulated volume and average price is dispatched.
- For each further partial execution, an update trade confirmation retaining the previous trade number and a higher trade suffix-number is dispatched. In addition to the data associated with the current partial execution, the update trade confirmation contains the accumulated volume and average price per order.



* Market Order

Calculation Example (III)
Account Level Reduction

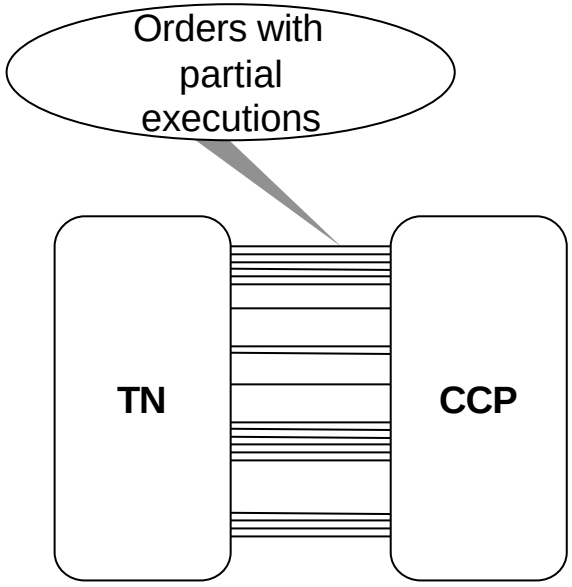
- Definition: One delivery instruction is generated per security, participant, settlement account, settlement date, currency and trading account per side.
- Account level reduction is available for agent and proprietary trades.
- During the day, an order flagged „account level“ for offset, is treated in Xetra equally to an order which is flagged „order level“, i.e. one trade confirmation as well as subsequent update trade confirmations - where applicable - per order are generated.
- At the end of the trading day, all Xetra and Floor trades, which are flagged „account level“, are aggregated and one delivery instruction is generated following the above-mentioned criteria. One trade confirmation with the grouped information and a new trade number is dispatched.



* Market Order

Effects of the Reduction of Technical Delivery Instructions

Reduction effects (one security/one Xetra account)

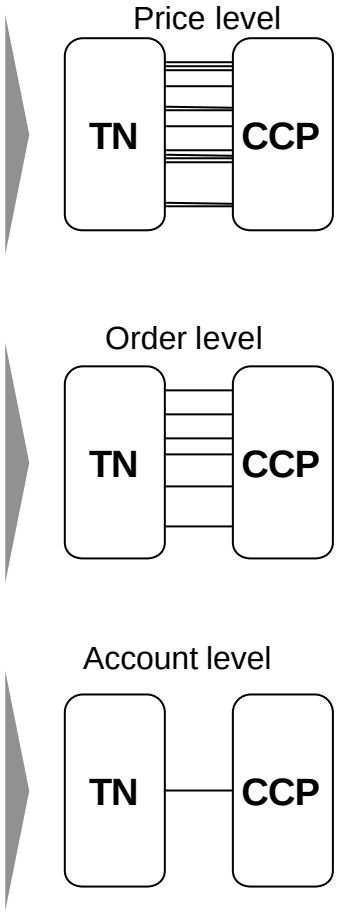


Example -data-

- (Partial) executions*	78
- Price determinations	65
- Orders	50

* execution against a counterparty

Reduction on:



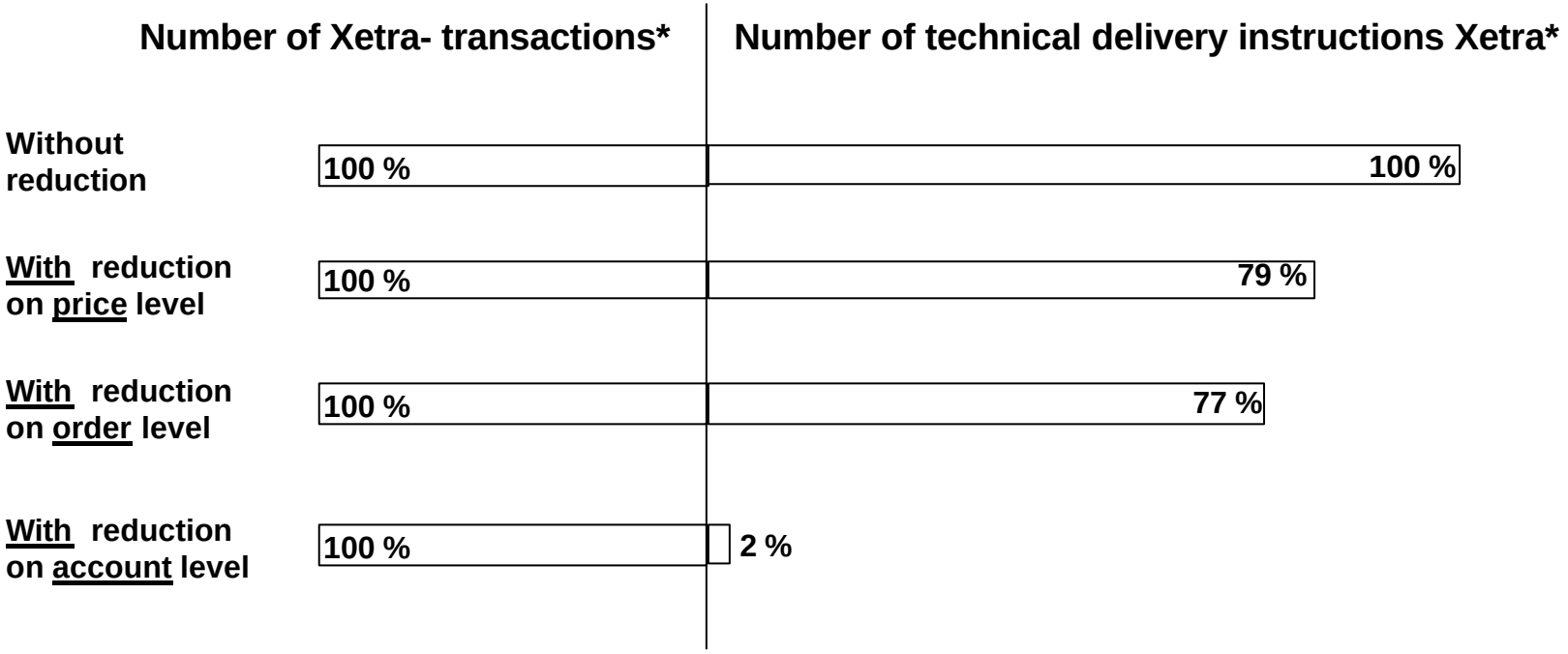
Delivery instructions/ Reduction efficiency	
65	16.6%
50	35.9%
1	98.7%

Factors determining trading behavior

- Number of orders
- Allocation of orders to different securities
- Unintended or deliberate order entry and volume according to order book situation
- Order volume compared to average
- Intra-day turnover rate

Efficiency of Reduction of Technical Delivery Instructions - Direct Bank/Direct Broker

Information as of March 2001

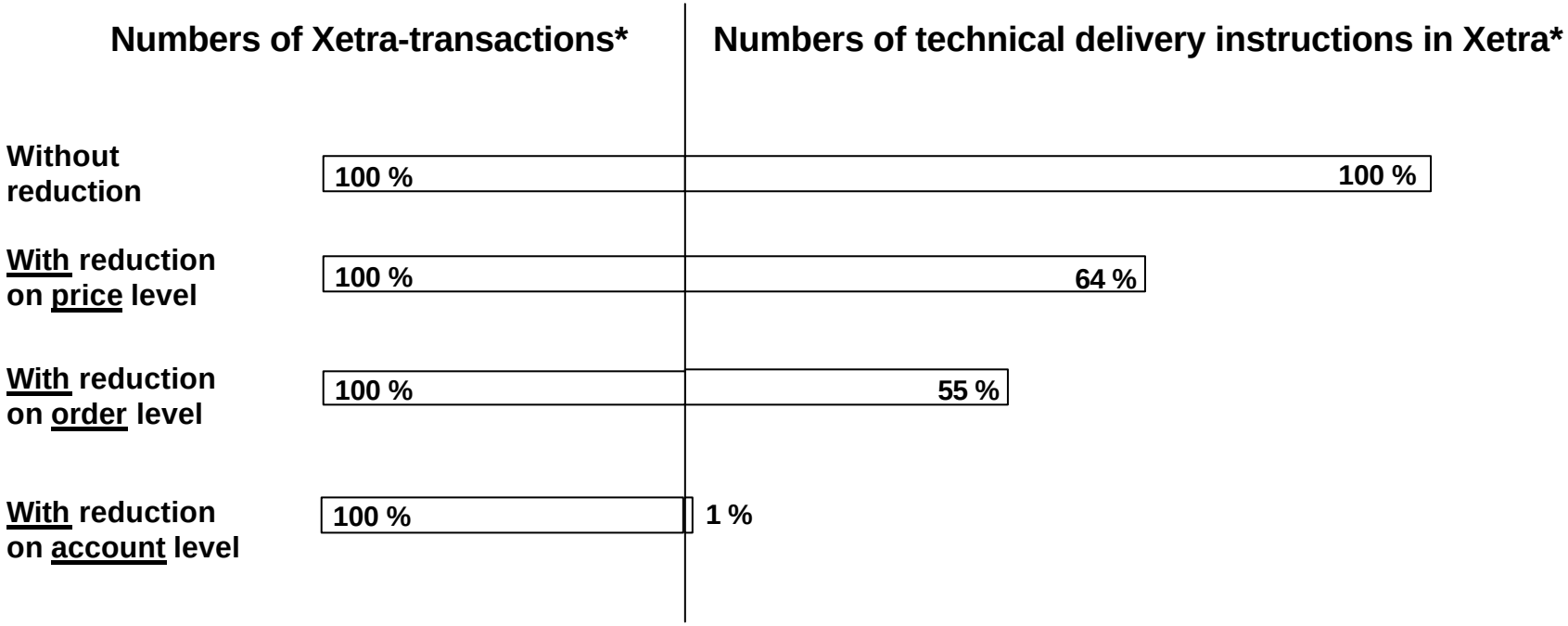


Approximately 98% reduction of technical delivery instructions on account level for the Members considered.

* Based on the month in question
** (Security of a Clearinghouse account)

Efficiency of Reduction of Technical Delivery Instructions Large Universal Bank

Information as of March 2001

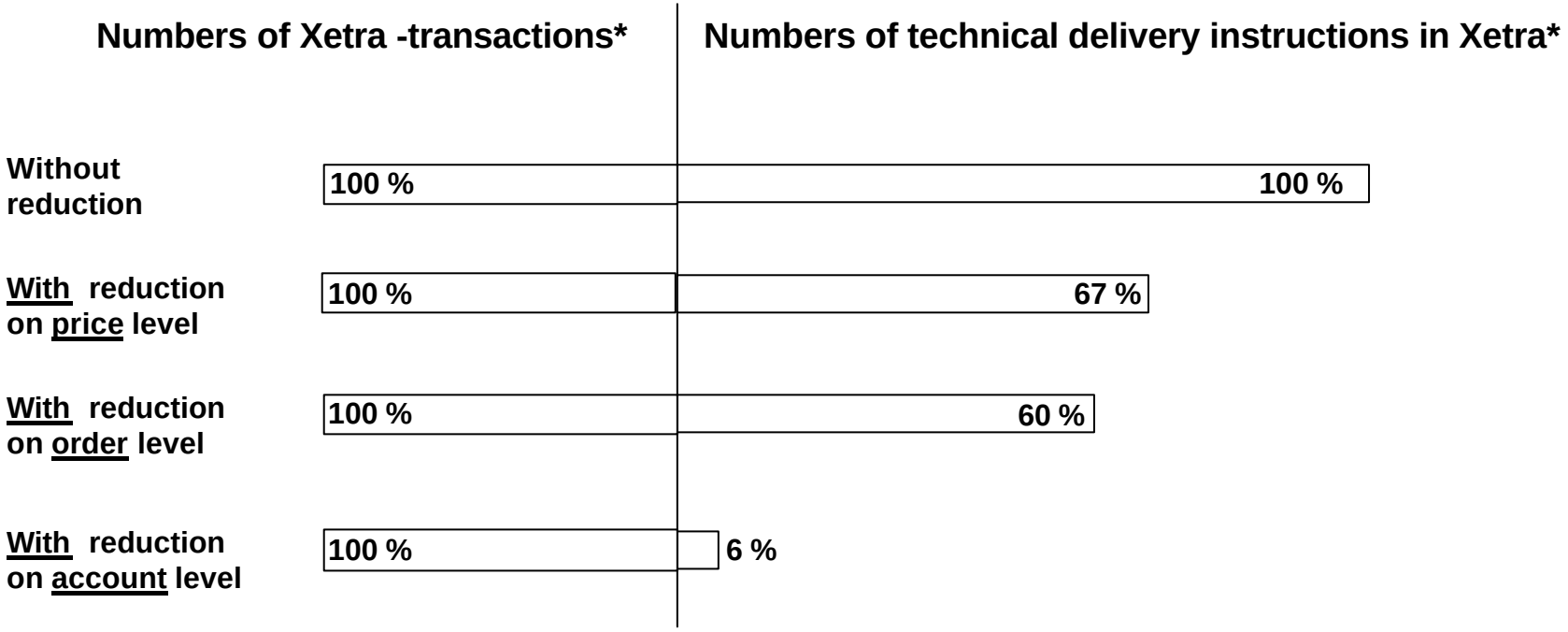


Approximately 98%reduction of technical delivery instructions on account level for the members considered.

* Based on the month in question
** (Security of a Clearinghouse account)

Efficiency of Reduction of Technical Delivery Instructions - Broker

Information as of March 2001



Approximately 98% reduction of technical delivery instructions on account level for the member shown considered.**

* Based on the month in question
** (Security of a Clearinghouse account)

Shaping/Partial Deliveries/Allocation of Units

Shaping	• Division of an unusually large delivery instruction, generated through account-level-reduction, into several smaller technical delivery instructions. • The size of shaping-induced delivery instructions can be defined by market segment.
Partial deliveries	• Eurex Clearing AG accepts partial deliveries from Clearing Members. • Eurex Clearing AG will, if necessary, execute partial deliveries in order to increase settlement efficiency and limit financing costs.
Allocation of units	• For partial deliveries, Eurex Clearing AG will establish a random-based allocation algorithm. • Reports (Projected delivery report, actual settlements reports, fail report) regarding allocation of delivered units will be provided for documentation of performance/non-performance of agent trades.

Basic Shaping-Principles

Basic principles of Shaping

- Shaping automatically divides a larger position into smaller settlement instructions.
- The number of units contained in one shaping block is defined per security and is based on the shaping amount set for the respective market segment as well as on the securities price.
- Except for the last shaping block even shaping block contains the number of units.
- Single trades are assigned to a shaping block in order to enable referencing.
- The actual amount may vary per shaping block.
- The number of units in a shaping block amount is defined by full hundreds (resp. thousands).
  Proposed criteria: Stock's Reference price = 100
  (if ≤ 100 thousands, if > 100 hundreds)

Advantages of Shaping for Partial Deliveries

Advantages of Shaping

Shaping increases settlement efficiency for participants and decreases (financing) costs of the CCP in case a position is not delivered completely:

Example:

- Initial situation: Seller cannot fully deliver a position.
- Without shaping:
  Although a partial delivery was performed, the entire position is not delivered in the current settlement cycle.
- With shaping:
  Partial positions resulting from shaping can be settled to the extent of the seller‘s partial delivery in the current settlement cycle.
- In a settlement cycle, the non-delivered position is thus a function of the part actually not delivered and not of the overall position.

Shaping (calculation example)

Shaping amount: 2,000.000 €

Reference price: 11.30 €

Shaping Rate: Int. (2,000,000/11.30) = 176,991 units
Rounded up to full thousands: 177.000 units

Number of units after offset:
Example:
Buy
Units 632,180
Settlement amount: 6.827.544
Average price
after offset: 10.80 €

settlement instruction # 1
Buy; 177,000 units; payment 1,985,070.88
Average price of the shaping block 11,21566 €

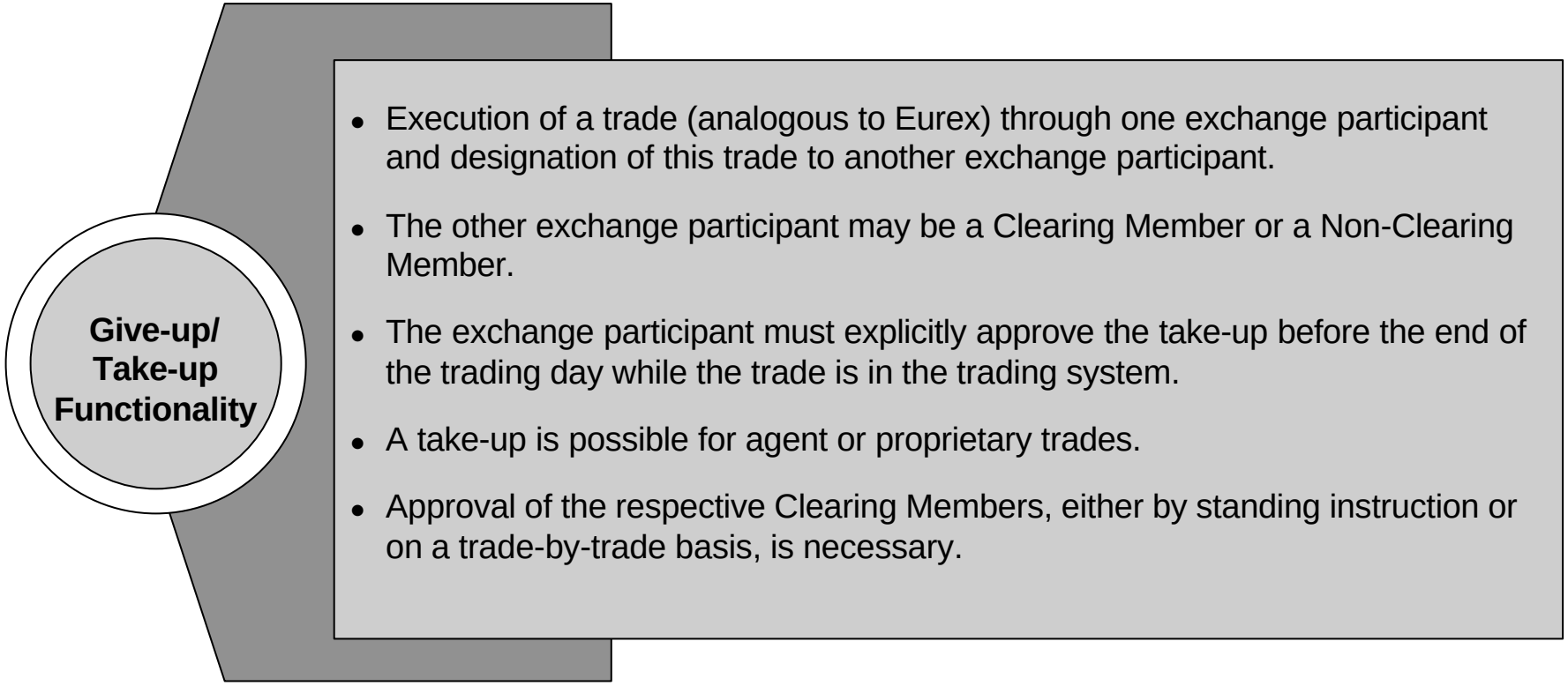
settlement instruction # 2
Buy; 177,000 units; payment 1,904,423.16
Average price of the shaping block 10.76 €

settlement instruction # 3
Buy; 177,000 units; payment 1,934,511.63
Average price of the shaping block 10.93 €

settlement instruction # 4
Buy; 101,180 units; payment 1,003,538.33
Average price of the shaping block 9.91570 €

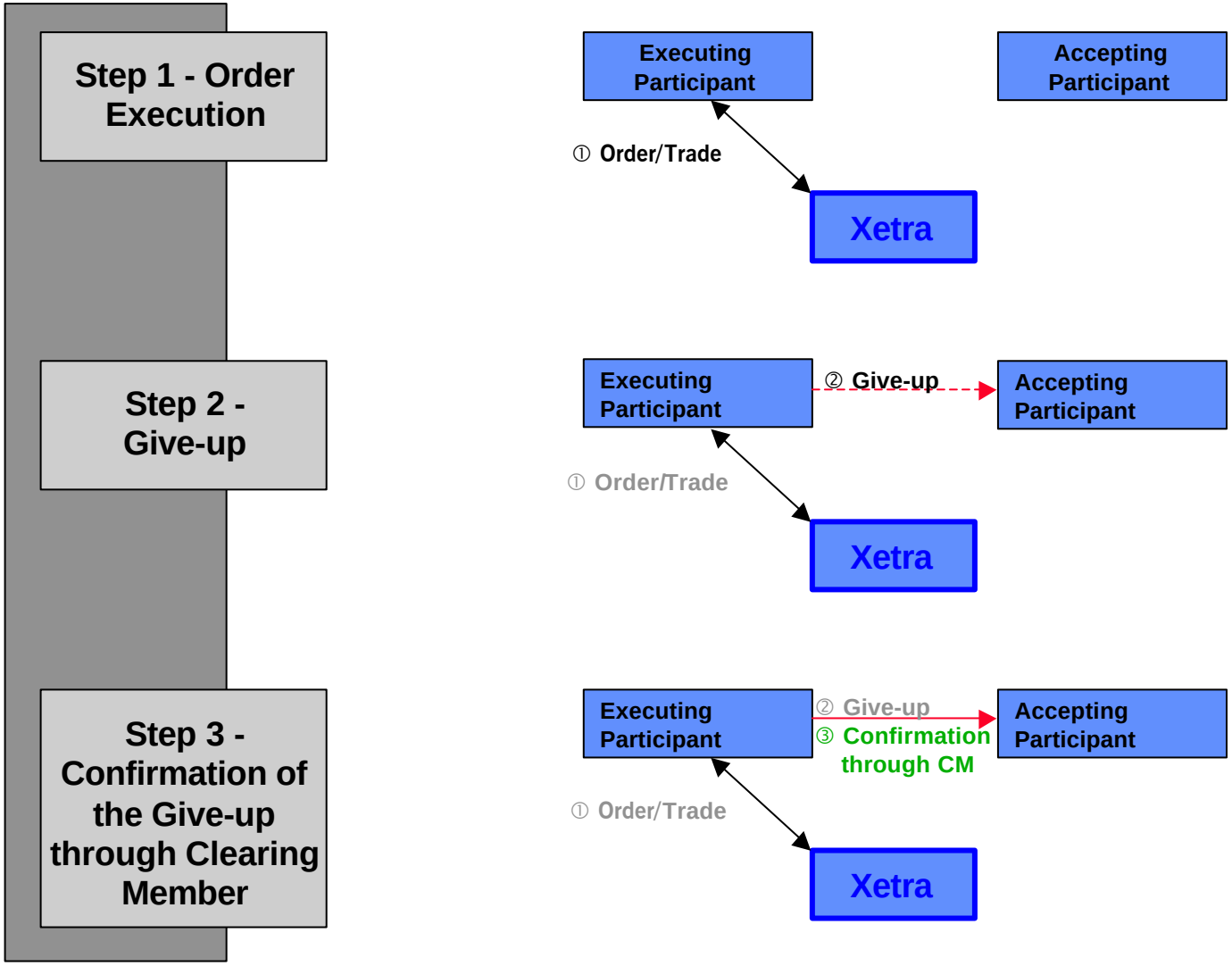
Residual position

Give-up/Take-up Functionality



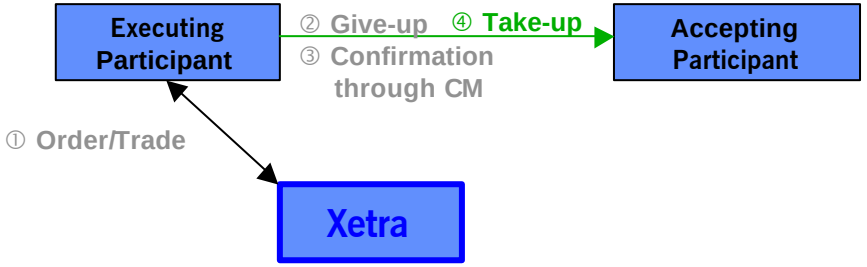
In the first release Give-up/Take-up as a CCP functionality is only available for Xetra Trades.

Give-up/Take-up Functionality - Process (1/2)

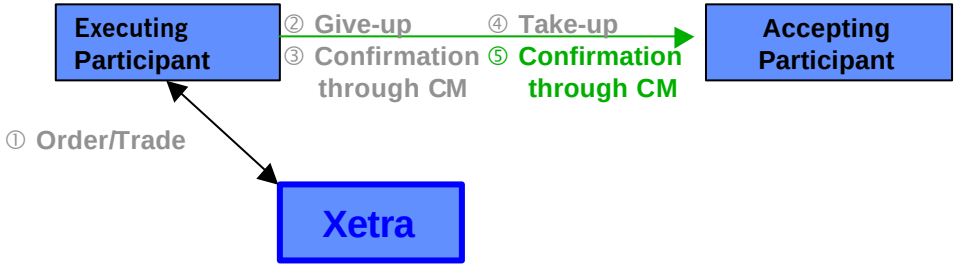


Give-up/Take-up Functionality - Process (2/2)

Step 4 - Take-up



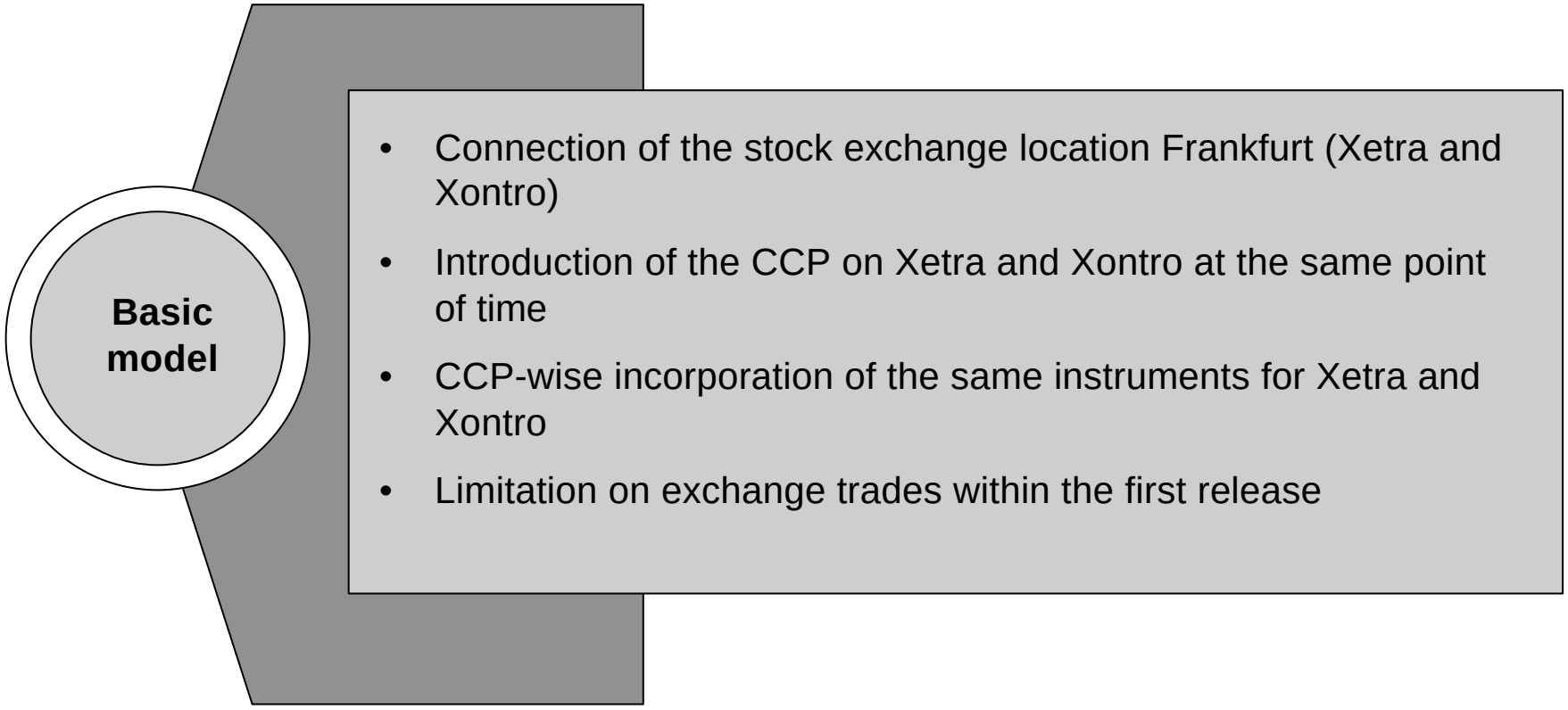
Step 5 - Confirmation of the Take-up through Clearing Member



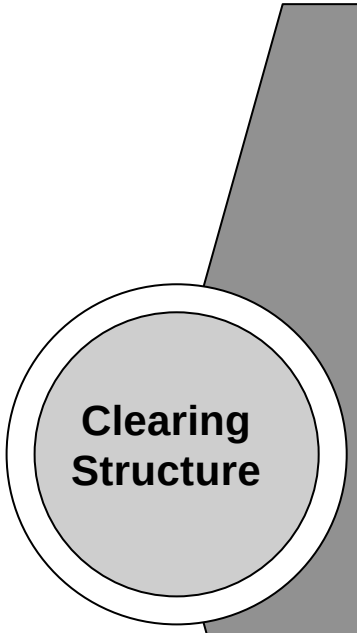
Agenda

- Structure and Scope of CCP
- Clearing and Settlement
  - Risk Management
  - Functionalities
- **Integration of Floor Trading**
  - Basic Model
  - Clearing Structure (Floor)
  - Brokers' Open Transactions
  - Cancellations
  - Trade Settlement and Price Differences
- Information Technology
- Introduction Process

Integration of Floor Trading - Basic Model

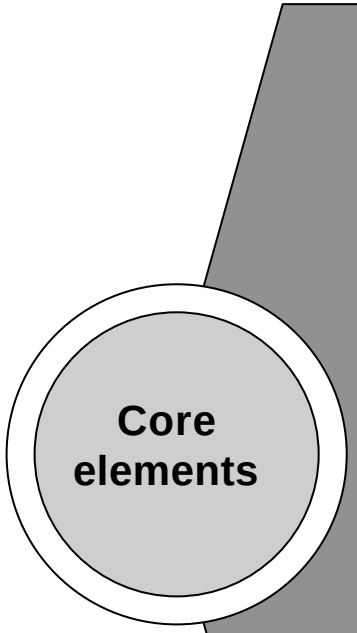


Clearing Structure of Floor Trading



- Connection of the regional exchanges *(negotiations underway).*
- Each participant trading in securities supported by the CCP, must be member of Eurex Clearing AG (DCM) or has to enter into an agreement with another participant acting as a GCM.
- A participant without an own Eurex Clearing Membership (NCM), needs a GCM to clear its Floor *and* Xetra trades.
- Cancellations or revocations of trades are only possible through the broker who entered the trades.

Brokers' Open Transactions



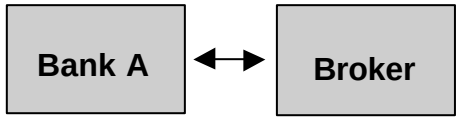
- The CCP becomes central counterparty as soon as a firm trade is concluded, either with a bank or with the broker's depository bank (principal trade).
- With the introduction of the CCP, the Frankfurt Stock Exchange (FWB) guarantees the closure of an open transaction through conversion into a broker's principal trade of the broker, according to the Exchange Rules.

Treatment of Brokers' Open Transactions

XONTRO

Formation of the open transaction

- With the entry of a broker, a provisionally open transaction is created:



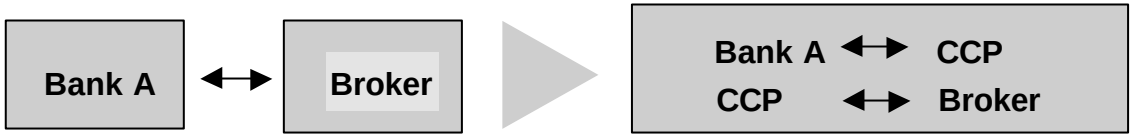
Closure of the open trans-action against a bank

- If the open transaction is closed against a bank, the CCP becomes central counterparty for both banks, i.e. two independent trades arise:



Closure of the open trans-action against a depository bank

- If the open transaction is closed against the broker's depository bank, a trade between the bank and the CCP and a second trade between the CCP and the broker is concluded:

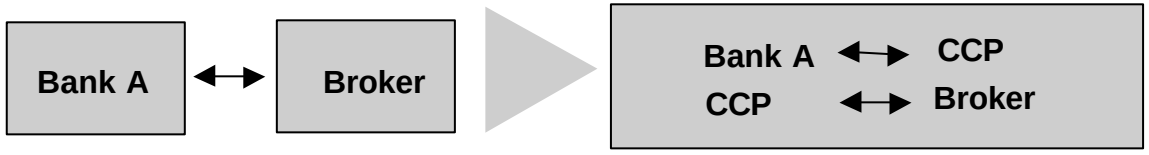


System-based Closure of Brokers' Open Transactions

XONTRO

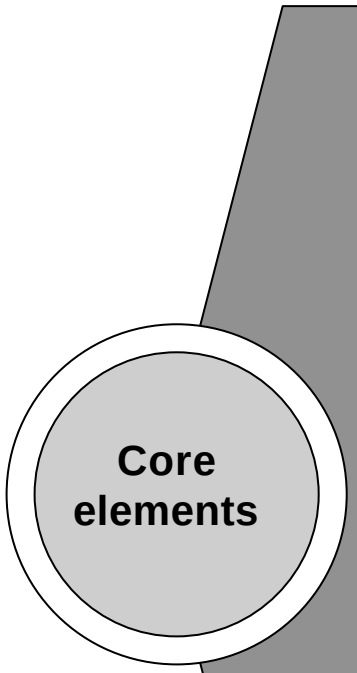
System based closure of open transactions

- Pursuant to the Rules & Regulations, open buy transactions must be closed before the end of the next trading day, open sell transactions must be closed before the end of the day after the next trading day.
- If the open transaction is not closed within this period, it will automatically be converted into a principal trade of the broker.



- The principal trade leads to a supply.

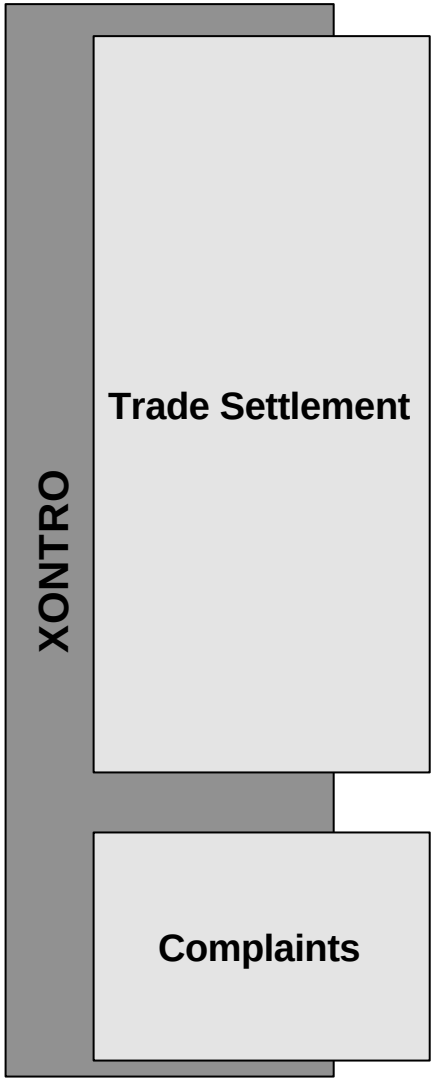
Treatment of Cancellations



- If trades that have not been allocated on account level are cancelled on the subsequent day, the position of the Member will be adjusted accordingly at the clearinghouse.

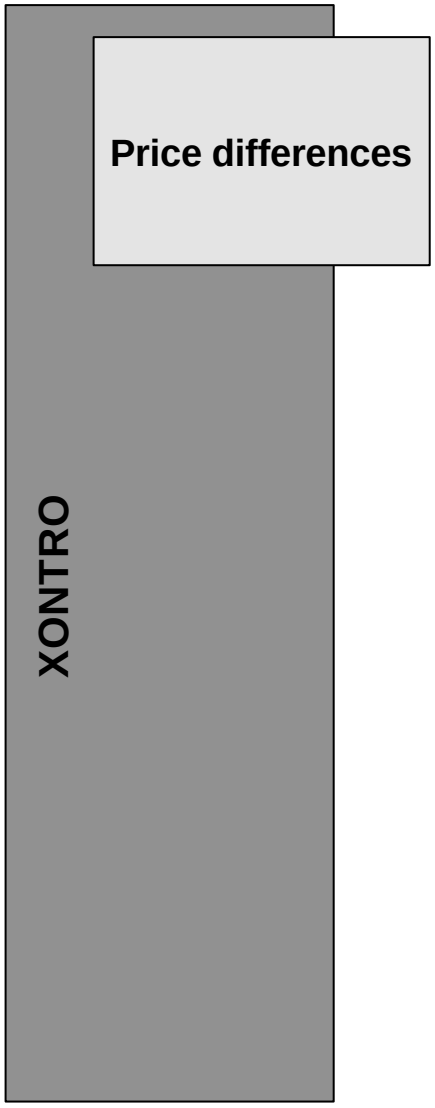
- If a trade is cancelled which was offset on account level on the previous day, the position adjustment is adjusted via an additional technical entry.

Trade Settlement Procedure and Complaints



- The future trade settlement procedure will differ from the current process.
- All data necessary for trade settlement will continue to be dispatched to the participants in due time.
  - Trading contract notes based on single executions will continue to be available every hour or in the evening after the trading period.
  - In addition participants are offered settlement contract notes after the trading period, which document the technical delivery instructions.
- Complaints can be raised until the next trading session and have to be reported to the respective broker, as has been the case up until now.

Processing of Price Differences

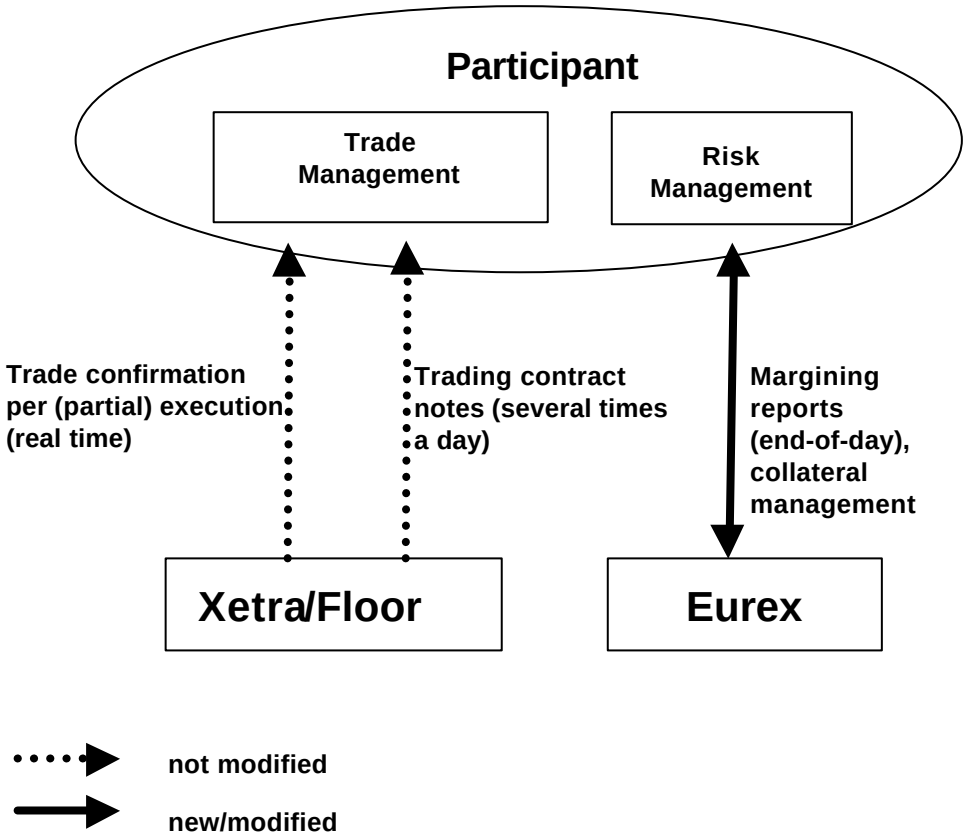


- In the future, owing to the new market situation, Lombardkasse AG will provide settlement of price differences only for those brokers/financial services institutions which either settle their proprietary trades exclusively via Lombardkasse AG or receive an explicit confirmation by Lombardkasse AG that these trades will continue to be settled.
- The calculation and settlement of price differences in XONTRO is performed in accordance with the new situation.
- At the end of every trading day, the CCP computes the balance of pending price differences of each broker.
- If the balance of pending price differences results in a payment by the broker, the CCP will require corresponding collateral, i.e. the broker‘s bank must deposit collateral for the amount in question.
- The CCP provides a report itemising the pending price differences and the resulting margin calls.

Agenda

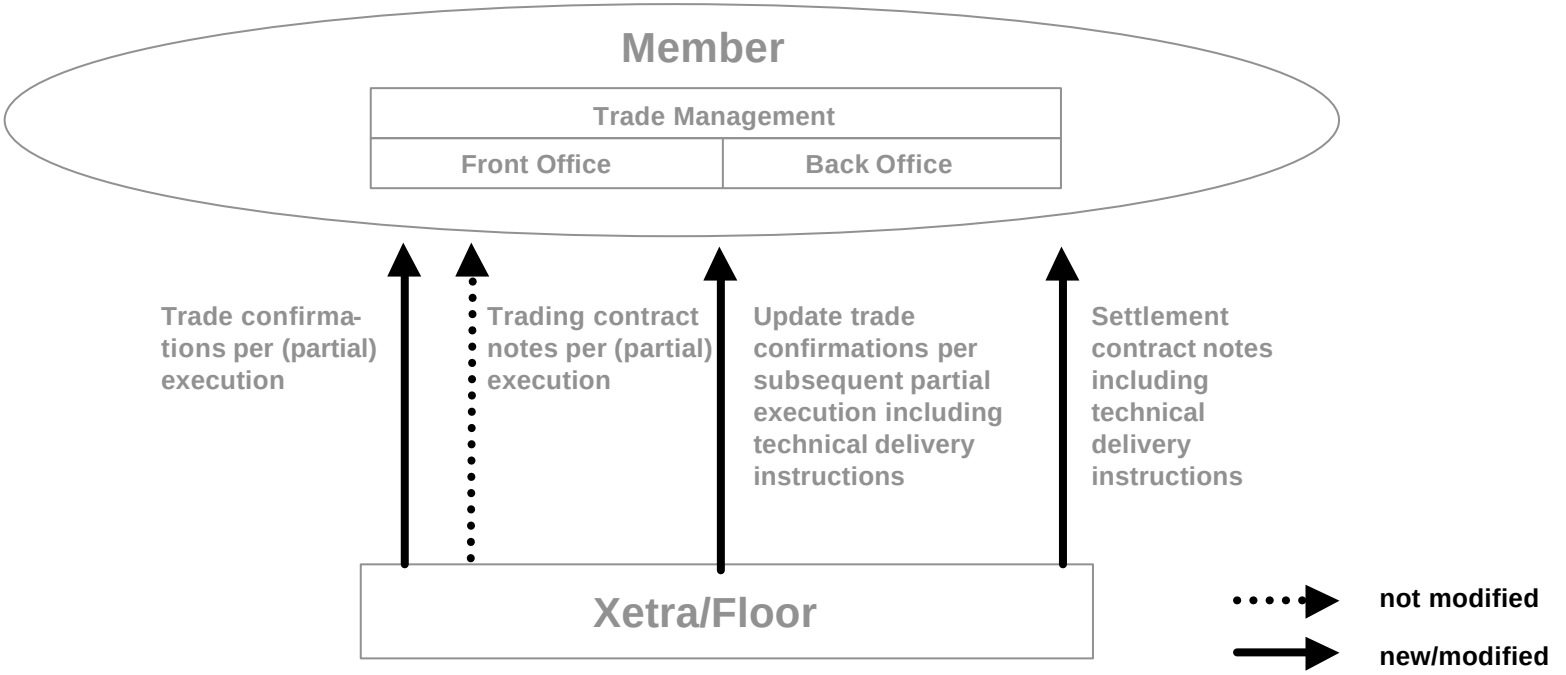
- Structure and Scope of CCP
- Clearing and Settlement
  - Risk Management
  - Functionalities
- Integration of Floor Trading
- **Information Technology**
  - Formats/Provision of Necessary Information
  - Process Flows
  - Orderrouting
  - Hardware and software requirements within the context of CCP
- Introduction Process

Little Implementation Effort for Participants without Reduction of Delivery Instructions



- For trade management, Members' back-office systems remain unaffected by the introduction of the CCP if delivery instruction reduction is not used. Distributed confirmations (trade confirmations, contract notes) contain trading information and correspond to the delivery instructions that are transmitted to the settlement systems.
- For collateral management and receipt of risk information (data, reports), Equity Clearing Members require a connection to Eurex.
- If Clearing Members intend to track the margin calls, the risk management systems need to be adapted.

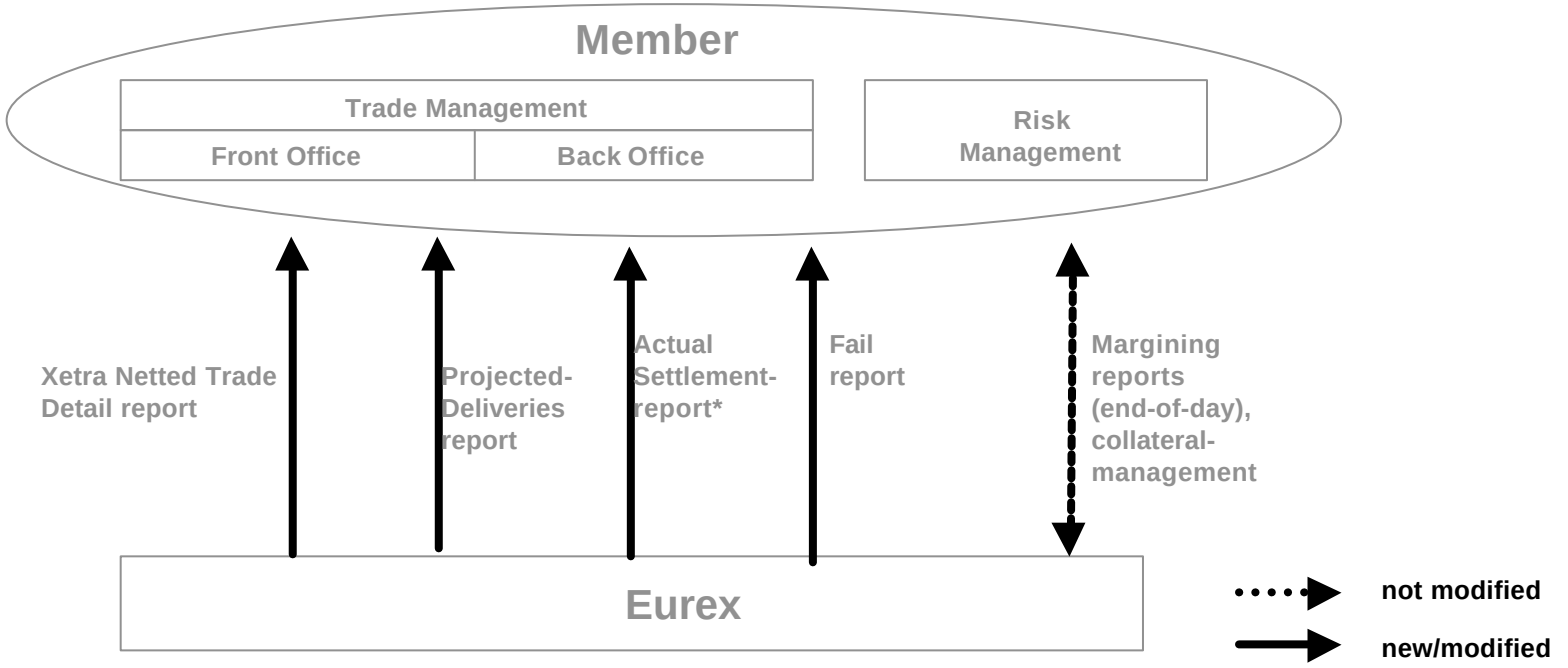
Option concerning Technical Delivery Instructions - Information based



The following information is provided information-based in the trade conformation and contract note format:

- Trade confirmations provide information regarding (partial) executions (trading) and the selected technical delivery instructions (settlement)
- Trading contract notes contain trading information
- Settlement contract notes show the selected technical delivery instructions

Provision of information on fulfilment on the basis of each single trade

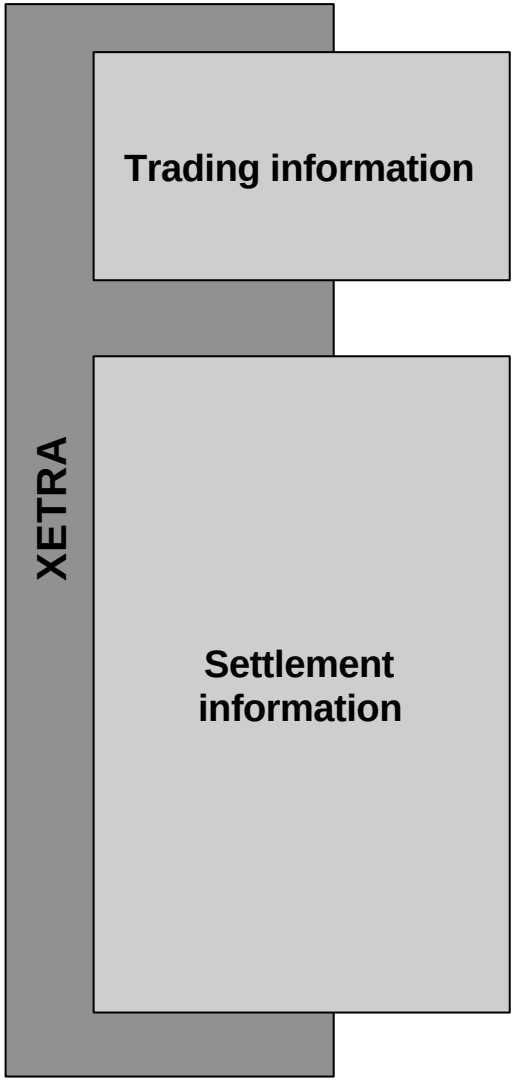


The following information is provided at the end of the day in form of reports/raw data:

- Pending deliveries (including associated trades) - (Projected Deliveries Report)
- Executed deliveries (including associated trades) - (Actual Settlement Report)
- Not executed due deliveries (including associated trades) (Fail report)
- Margining/collateral management information

* is also used on an intra day basis after each processing cycle

Trade Confirmations



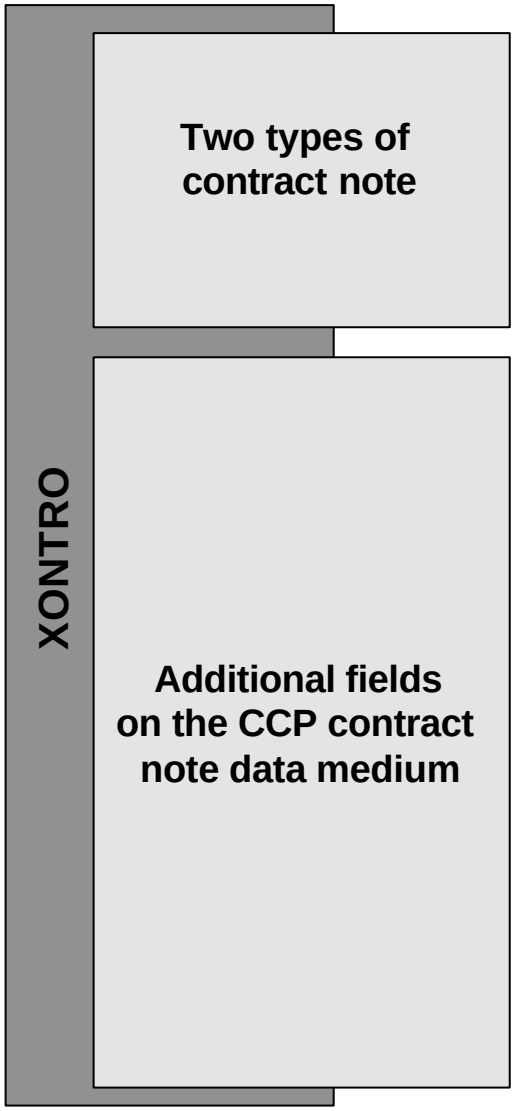
- Contains Information regarding all (partial) executions
  - Price and volume of the (partial) execution,
  - Time stamp of the (partial) execution.

- Update trade confirmations additionally show
  - actual amount,
  - average price,
  - overall volume

  of all previous partial executions of a given order.

- In case technical delivery instructions are reduced on account level, update trade confirmations including the respective delivery instructions after setoff and shaping are provided daily after the batch run on a daily basis.

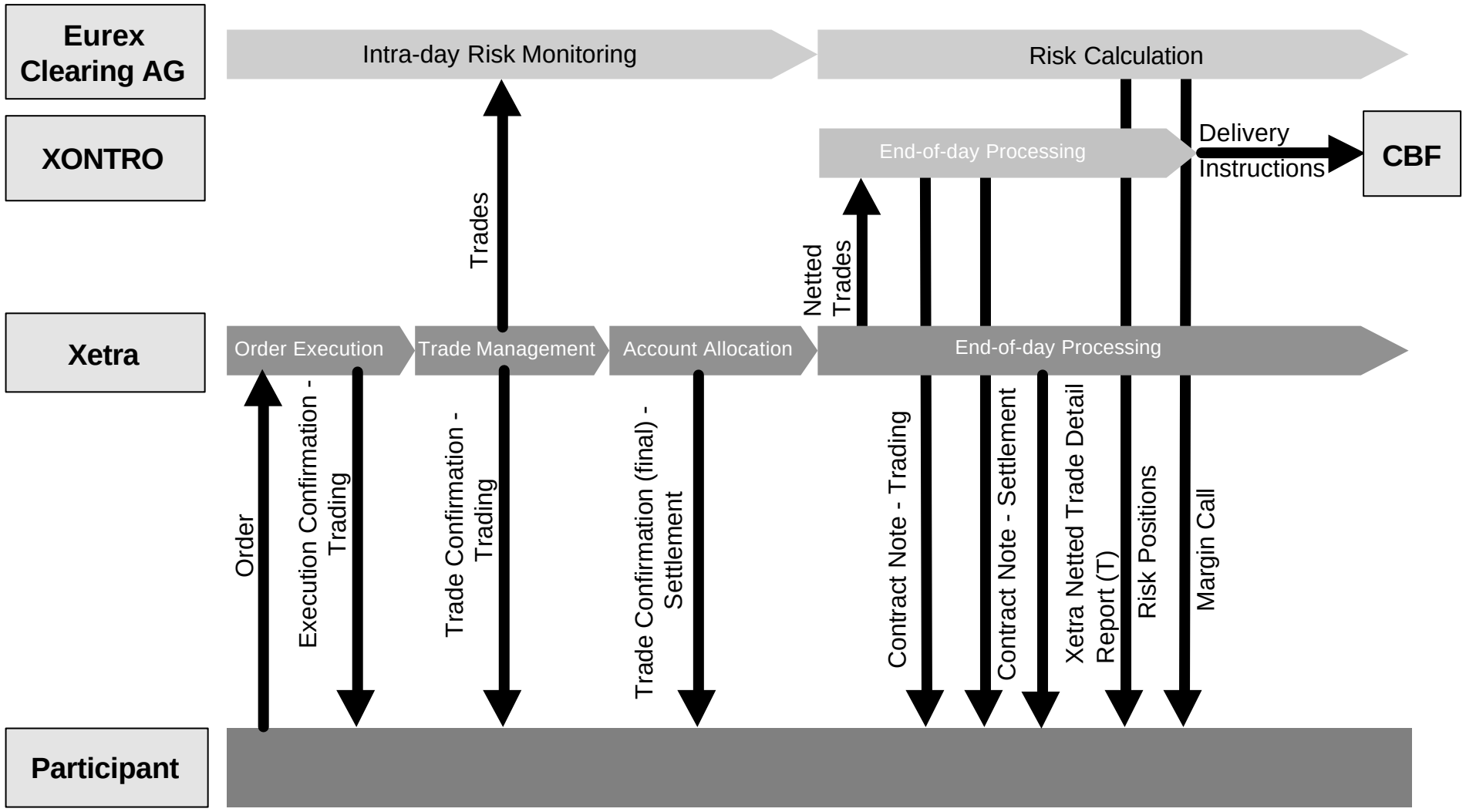
Contract Notes



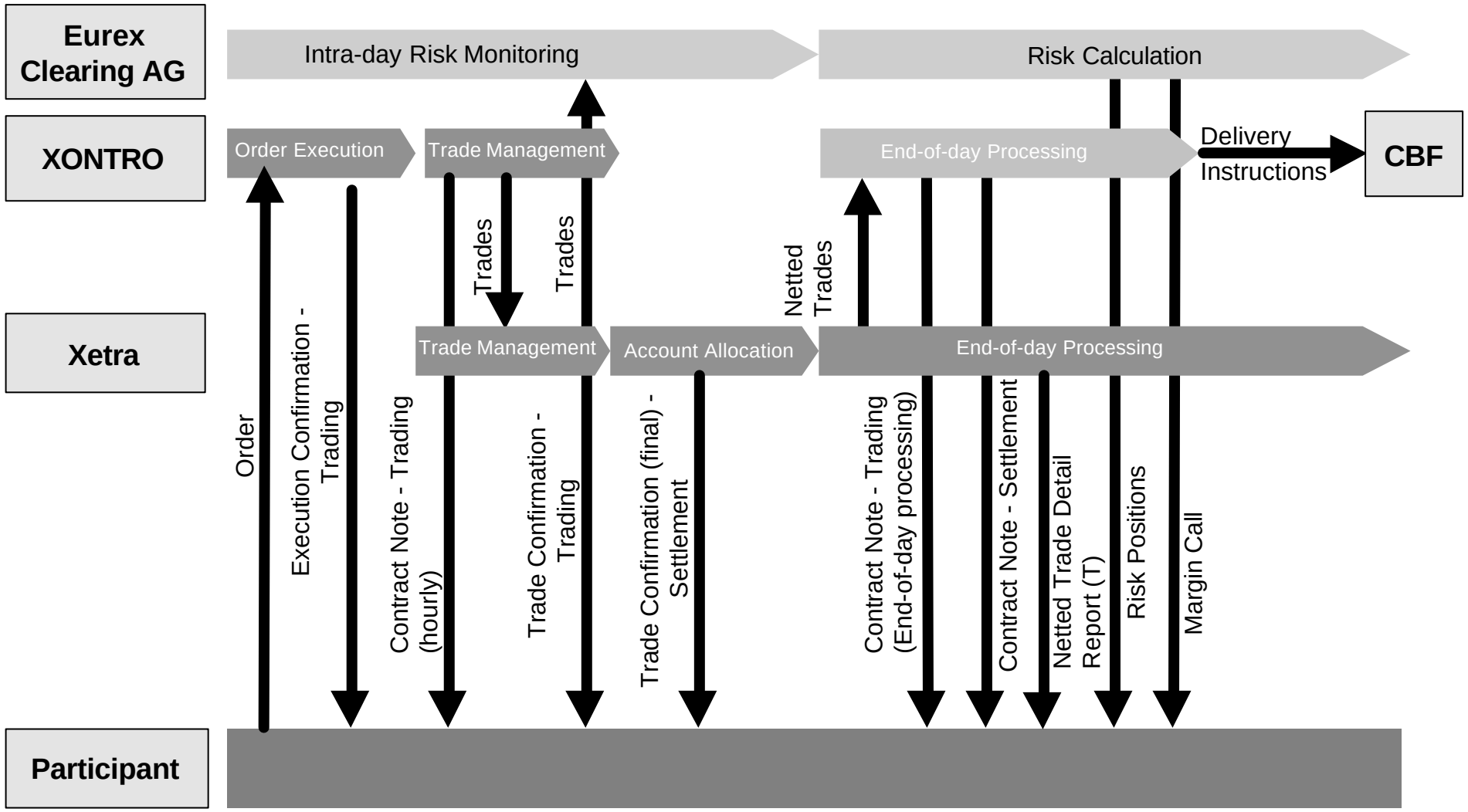
- Contract note “Trading” - documentation of the trading activity
- Contract note “Settlement” - documentation of the technical delivery instructions after shaping (account level offset)
- Optional receipt of trading and/or settlement contract notes

- Modifications in the S.W.I.F.T. MT512 format, label 23 (trade type)
  - ‚Principal trade‘ mark in trading and settlement contract note (mandatory).
  - If reduction of delivery instructions is selected, the “netting category” in the trading and settlement contract notes will be filled.
- Modifications in the S.W.I.F.T. MT512 format, label 72; third row (information sender to recipient).
  Trade code suffix, as contract notes - trading receive the same trade numbers for several partial executions, if the reduction of technical delivery instructions is activated (entry in the existing field Xetra/Newex - trade number, this data is already available in label 20, trade number).

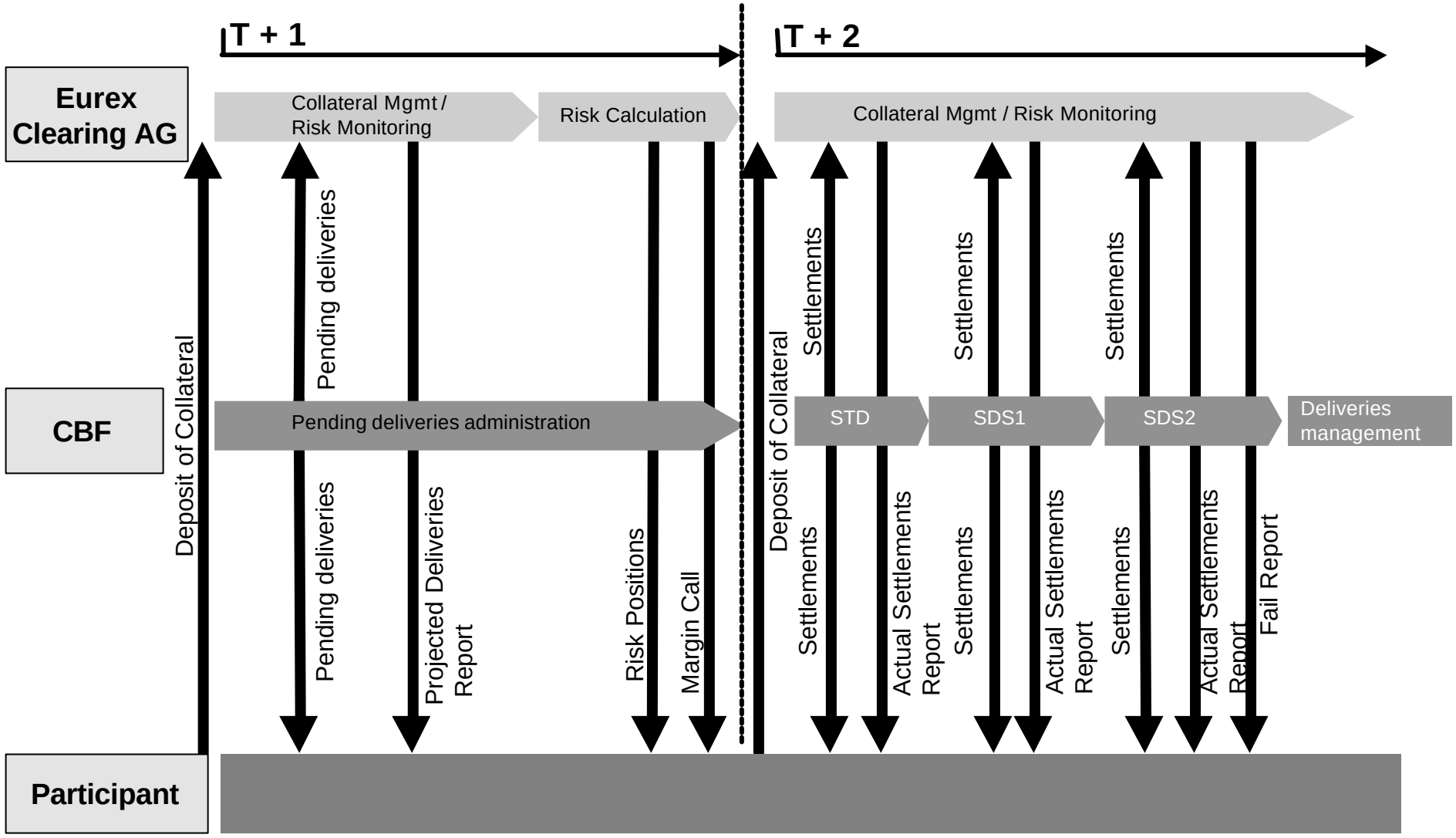
CCP Process Flow at T+0 for Xetra Trades



CCP Process Flow at T+0 for XONTRO Trades



CCP Process Flow at T+1 and T+2 for Xetra Trades



Dispatched Documentation regarding CCP- Relevant Interfaces

	Documentation
Xetra	• **Documentation:** „Xetra Release 6.0 VALUES API Programming Version, Volume 5 - Xetra Application Requests, Responses and Subscriptions“ • **Contents:** Detailed description of trade confirmations • **Dispatch date**: February 1, 2001 on www.xetra.de
Xontro	• **Documentation**: „S.W.I.F.T. information formats for contract notes and trade confirmations generated by XONTRO Trade“ * • **Contents:** Detailed description of contract notes (trading and settlement) • **Dispatch date:** April 6, 2001 on www.xontro.de
Integrated Clearinghouse	• **Documentation**: „Preliminary Functional Release Notes - Equity CCP“ sowie „Preliminary Technical Release Notes - Equity CCP“ • **Contents:** Detailed description of risk and collateral management reports • **Dispatch date:** April 4, 2001 on www.xetra.de

*an update is currently being prepared

Order Routing

System connection banks

- The interface will be enhanced by the ‚proprietary trade' flag implemented in XONTRO. If the new (optional) field is not assigned by the participant, the default value will be set to ‚agent trade'.
- In the first CCP release, the technical delivery instruction alternative in Xontro is not selected on order level. The alternative desired by the participant
  - •no reduction
  - •account level proprietary trades
  - •account level proprietary and own trades

  will be stored as indicator in the customer's base data and added in the trade enrichment process.

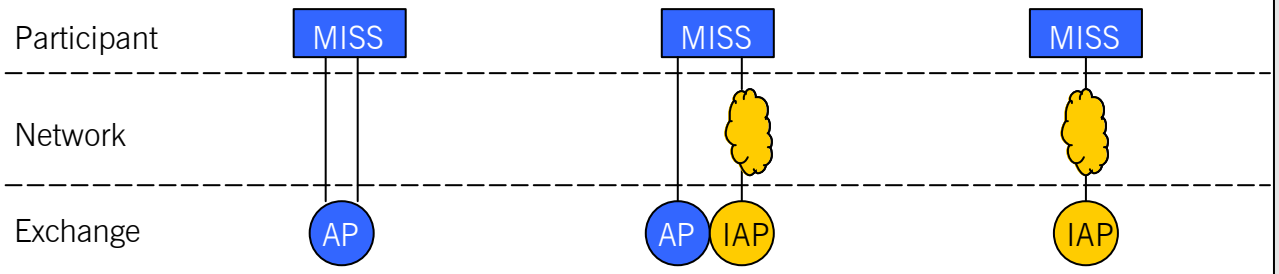
Xentric Order

- Based on VALUES API, Xentric Order offers order routing to all electronic trading systems of Deutsche Börse AG.
- As Xentric Order is based on VALUES API, all relevant functionalities of the CCP can be used in Xetra.

Xentric Order S.W.I.F.T

- For Xentric Order S.W.I.F.T, which is based on S.W.I.F.T., the fields necessary for the CCP functionality (e.g. Netting Type, Account Type) are supported.

Connection Alternatives to Eurex Clearing AG for Collateral and Risk Management



Performance; Availability; Connection costs

Premium	Combined	iAccess
• Two leased lines via one or two different providers • High performance and availability	• One leased line with high performance and availability • Backup connection with non-guaranteed performance and availability • Automatic failover	• Performance and availability dependent on selection of provider (by the participant) • Integration in partici-pant's inhouse systems possible

- Eurex MISS workstation solution
- With an iAccess solution, Internet-supporting routers type 1720 sufficiently support clearing members' collateral and risk management activities.
- NCMs can obtain their (clearing) relevant reports via the Xetra infra- structure.

= Internet connection AP = Access point IAP =Internet access point in Frankfurt/Main

Agenda

- Structure and scope of CCP
- Clearing and Settlement
- Integration of Floor Trading
- Information Technology
- Relevant Interfaces for CCP
- **Introduction Process**
  - Benefits for Market Participants
  - Products Range
  - Retention of Two Process Models
  - Member Readiness Concept
  - Simulation Schedule

The CCP generates considerable Benefits for Market Participants

BENEFITS OF THE MARKET PARTICIPANTS THROUGH THE CCP

Transaction netting

- Improvement of market participants' back-office efficiency through reductions in complexity and volume
- Reduction of settlement instructions

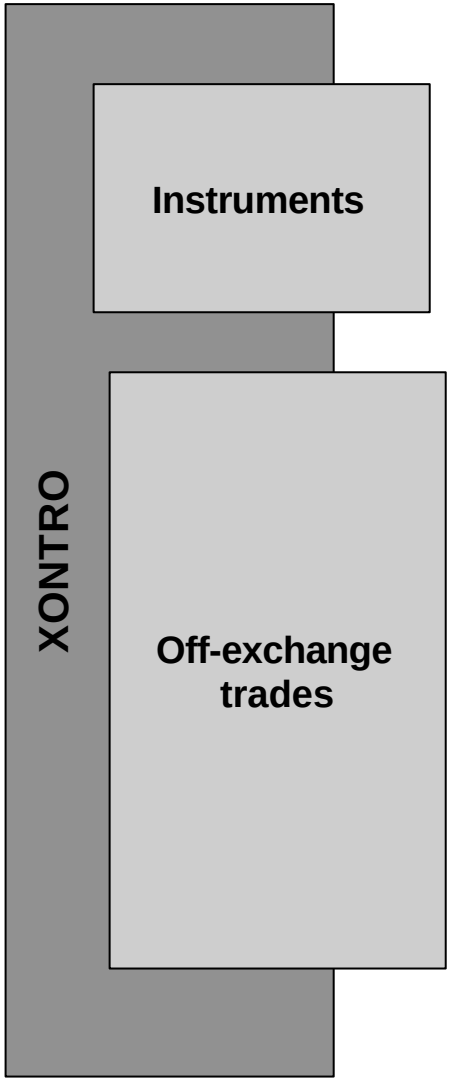
Risk Management

- Risk reduction based on take-over of counterparty risk
- Reduction of backing economic and regulatory capital (Basel II)
- Reduction of system risk through reduced transaction volumes
- Reduction of capital commitment through cross-product margining
- Avoidance of cherry-picking in case of Member default through close-out netting

Further benefits

- Increased market efficiency through post-trade anonymity
- Increase of delivery discipline through late delivery handling
- Round lot 1 for all stocks
- "Give-up" Functionality (re-assignment of trades)

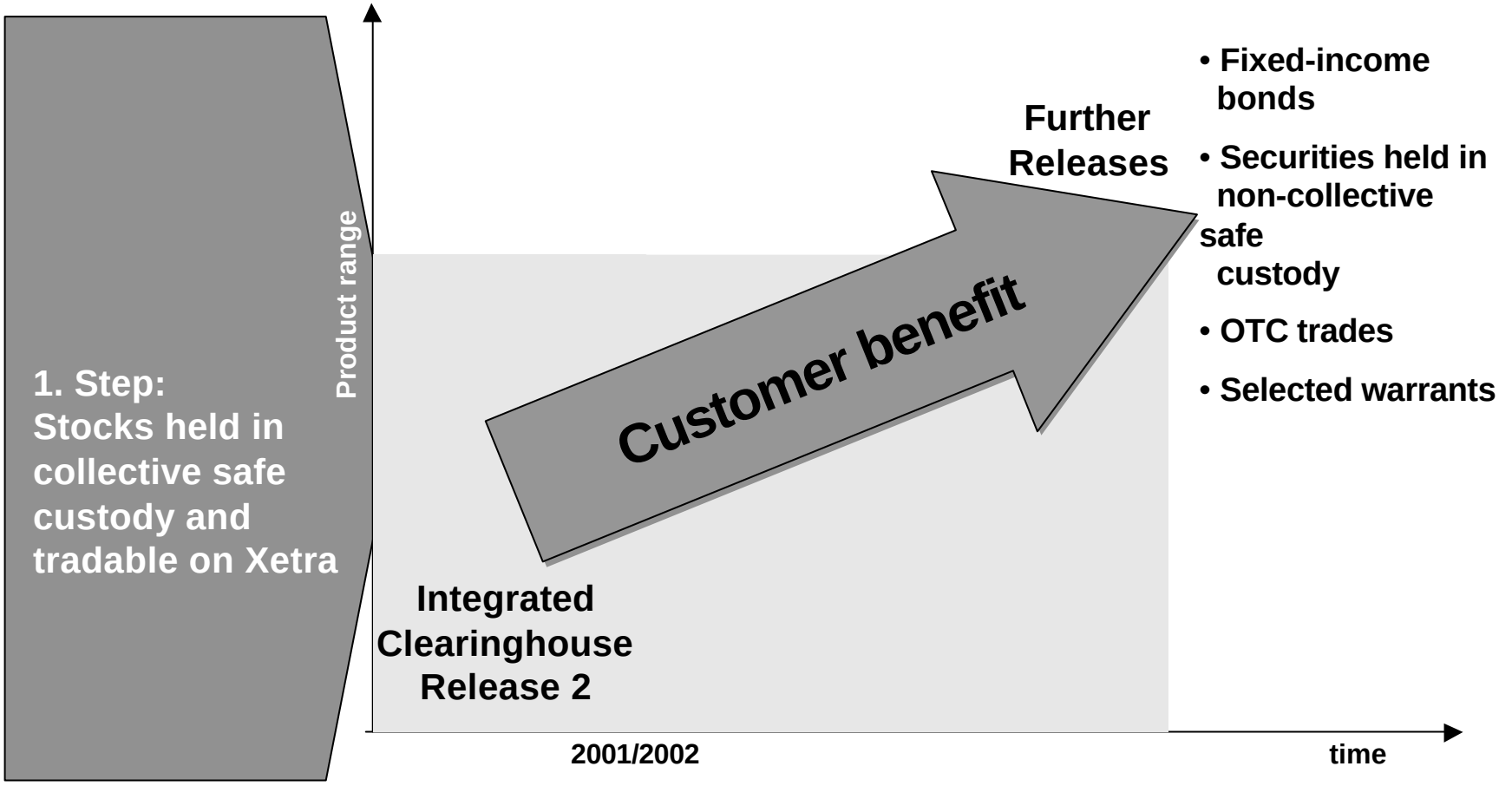
Product Range



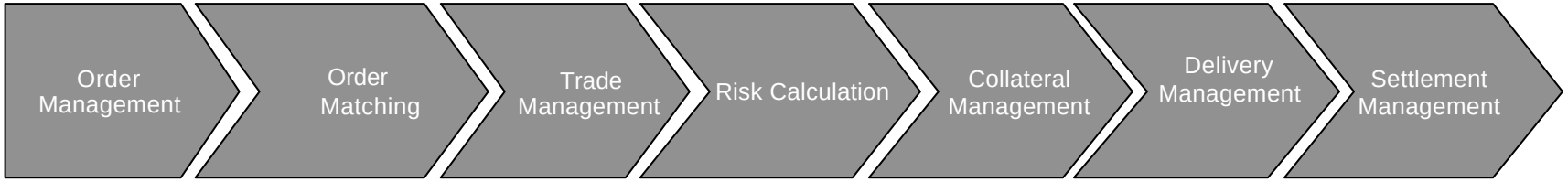
- Within the first step of the CCP-introduction the functionality will be available basically for equities, which are subject to CSC (collective safe custody) and tradable on Xetra.

- Off-exchange trades are not covered by the first CCP release:
  - Direct bank trades, entered by banks
  - Trades brokered between different exchange market places (‘PÜEV’ trades)
  - Trades between brokers (‘HUM’)
  - Trades under certain conditions (e.g. settlement day varies)

Gradual enhancement of Product Range planned



Retention of Two Process Models



Securities within CCP scope

- Eurex Clearing AG as single counterparty for all transactions.
- Central counterparty functionalities available (optional performance of technical settlement instructions, Give-up/Take-up).
- Margin calculation based on the difference of purchases and sales of a trading day (agent and principal trades).
- Deposit of margins/collateral for backing of trades via the Eurex infrastructure.
- Defined procedure in case of default.

Securities outside CCP scope

- Transactions continue to be executed bilaterally between the exchange participants.
- Functionalities of the central counterparty cannot be used.
- Calculation of the margin requirements on the basis of the larger trading side.
- Deposit of collateral according to the new obligation monitoring procedure (‚EK-neu‘)
- No defined procedure in case of default.

Member Readiness Concept/ Member Communication

Apr. 5, 2001 — May 28, 2001 — time

Distribution of necessary documentation for members

- functional and technical specifications
- interface documentation
- simulation documentation

Simulation

- Road shows/Member workshops
- Member Training

Ongoing Work in

- Exchange Council committee
- Exchange Council subcommittee
- task forces

Distribution of further information for Members:

- Rules & Regulation and clearing conditions in their preliminary version
- Admission forms

- Ongoing Member support and monitoring via telephone and through visits
- Information via circulars and over the Internet

Equity CCP Simulation Overview

Two-phase approach

- Offering of two major simulation phases allows the early provision of a simulation environment.
- Xetra, XONTRO, Eurex and the Eurex Clearinghouse participate in both simulation phases.

The Equity CCP simulation is offered with different scope in the following phases:

Phase I	**May 28, 2001 - July 12, 2001**
Phase II	**starting August 13, 2001**

- Phase I supports Xetra as trading platform.
- During phase II the XONTRO platform (Frankfurt Stock Exchange) will be accessible as well.
- It is planned to include the Clearstream settlement systems within phase II.

Simulation Functionalities in Phase I

The following systems - including the functionalities listed below - are available at specific times during simulation phase I (28.05. to 12.07.2001):

- Functionalities available with start of phase I

from 28.5.2001 onwards:

  - Xetra: Give-up/Take-up
  - Xetra: Reduction of settlement instructions
  - CCP (Eurex): Risk Management
  - CCP (Eurex): Collateral Management

- Functionalities provided during phase I

from 20.06.2001 onwards:

  - Balancing (balancing of buys and sells to one technical delivery instruction)
  - Shaping (division of delivery instruction into several smaller technical delivery instructions)

from 30.06.2001 onwards:

  - XONTRO: Trading and Settlement Contract Notes

Member Interfaces in Phase I

The following member interfaces are supported during the simulation and are available at specific times during simulation phase I:

- Interfaces available with start of phase I

  from 28.05.2001 onwards:

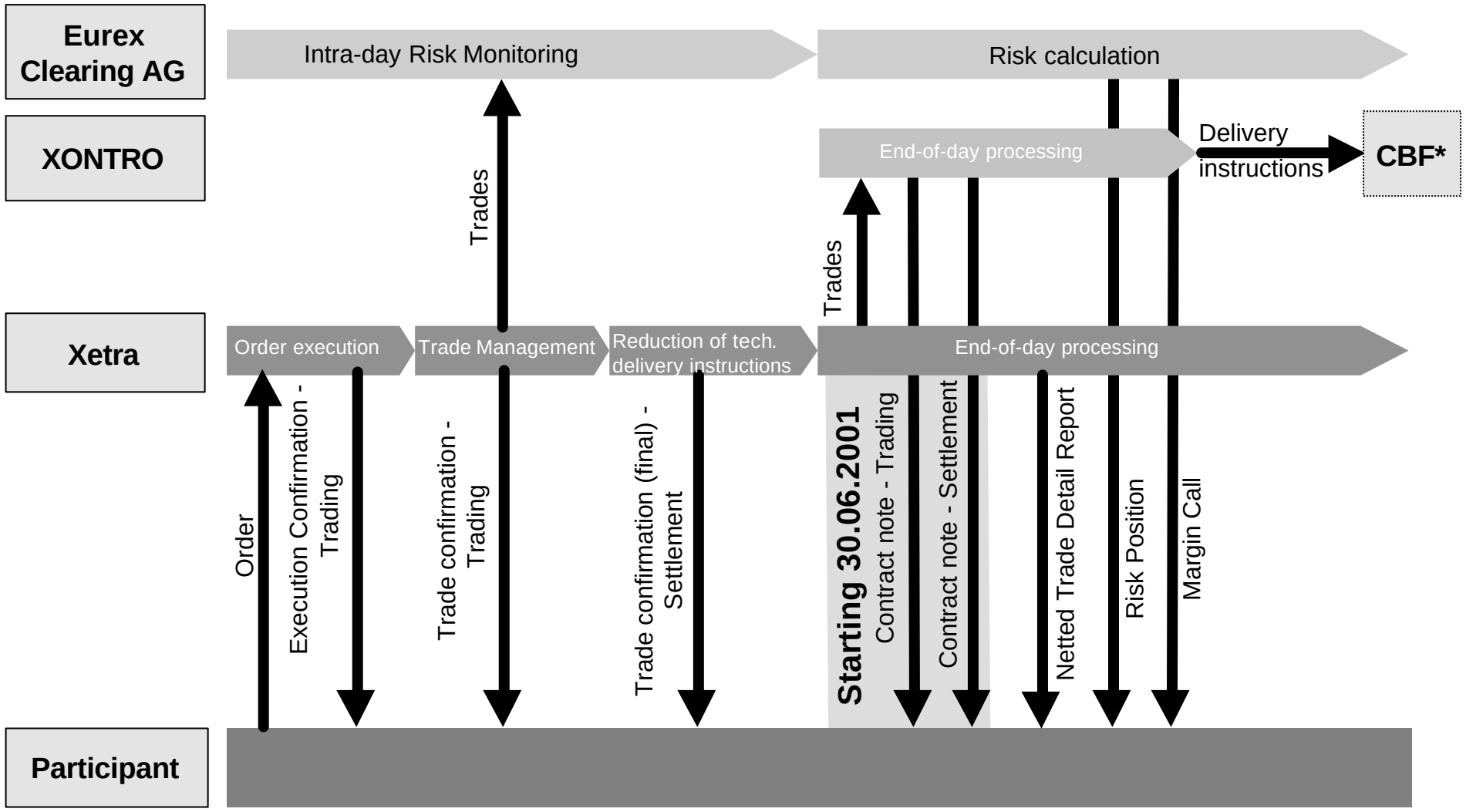
  - Xetra: Trade Confirmations
  - Eurex: Margin and Collateral Reports (Clearing Members)
  - Xetra: Netted Trade Detail Report

- Interfaces provided during phase I

  from 30.06.2001 onwards:

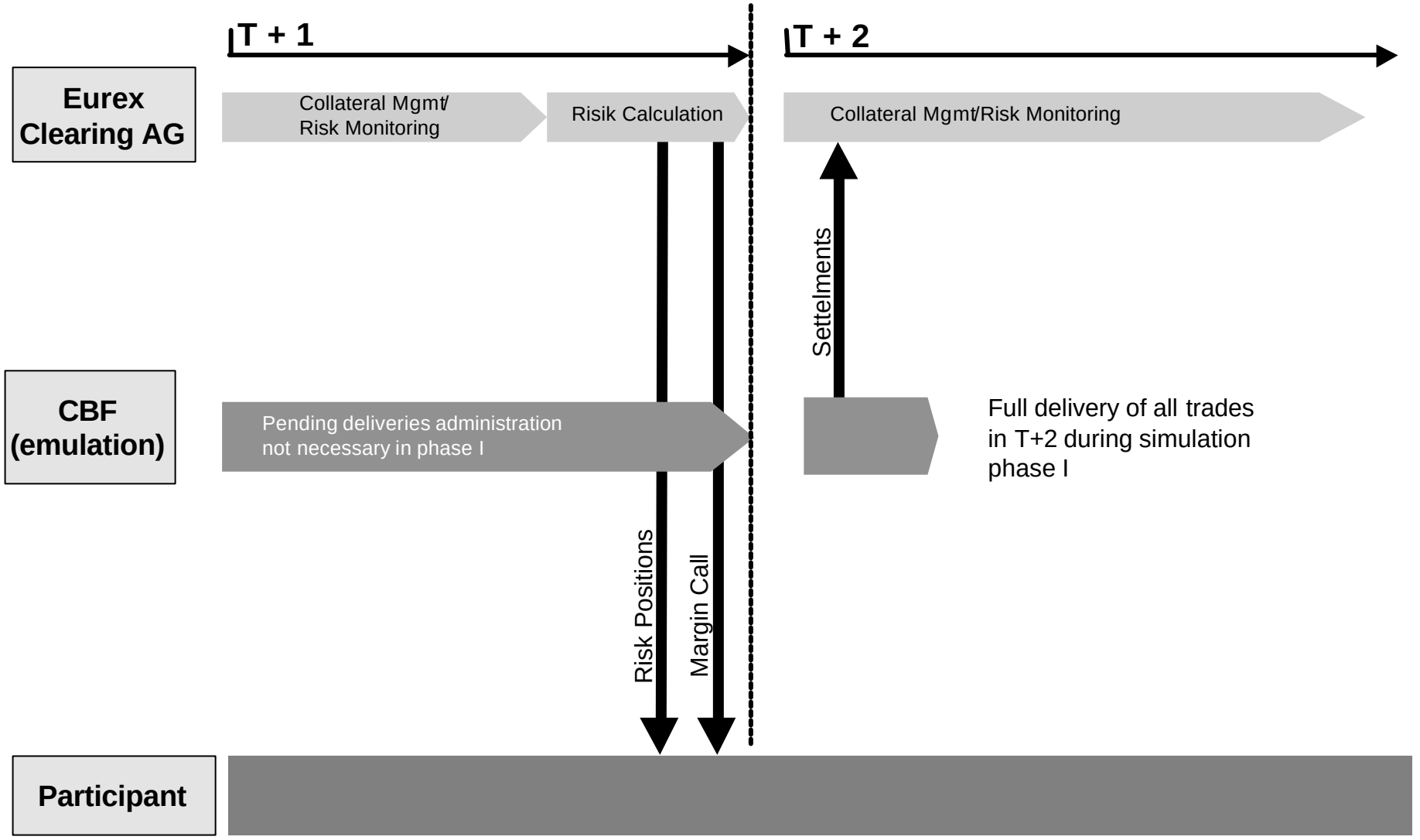
  - XONTRO: Trading and Settlement Contract Notes

CCP Process Flow in T+0 for Xetra Trades during Equity CCP Simulation (Phase I)



* emulation in Equity CCP simulation phase I

CCP Process Flow in T+1 and T+2 during Equity CCP Simulation (Phase I)



CCP Process Flow in T+1 and T+2 (during Simulation Phase II)

