X-pand into the Future

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Recipients: All Members of Eurex Clearing AG and vendors
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Repo Transactions: Introduction of Close-Out-Netting Regulation

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Content may be most important for:	**Attachments:**
➲ Front Office / Trading ➲ Middle + Back Office ➲ IT / System Administration ➲ Auditing / Security Coordination	New Section of Clearing Conditions for Eurex Clearing AG

The Executive Board of Eurex Clearing AG has decided on the introduction of the enclosed Close-Out-Netting Regulation. It will become effective **May 20, 2006**.

As an adjustment to corresponding regulations in existing national and international framework agreements for financial transactions, a Close-Out Netting Regulation for repo transactions was developed in cooperation with a working group of market participants of Eurex Repo GmbH. This new regulation, which will be added in chapter 4, section 3, considers the special situation of Eurex Clearing AG entering transactions as Central Counterparty.

The inclusion of Close-Out Netting Regulations into the Clearing Conditions for Eurex Clearing AG offers Eurex Repo Clearing Members the potential to significantly reduce their regulatory capital costs for repo transactions and the opportunity of a relief with regard to the large and million loan regulation since these transactions have no longer to be considered for this regulatory calculation purposes. In total, scope for development of stronger repo business activities using the trading platform of Eurex Repo GmbH is created.

Depending on their individual accounting rules, the new regulation also lays the foundation for national and international institutes to carry out on-balance-sheet-netting.

A renowned law firm has delivered a legal opinion on the Close-Out-Netting Regulation. After the regulation comes into force, the document will be made available to all Repo Clearing Members, so that it can be passed on to the respective supervisory authorities of their countries of origin, if such action is required in order to permit application of corresponding relief. Translations of both the document and regulations are available in English and French.

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IV Chapter: Clearing of Transactions at Eurex Repo GmbH

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3 Part: Close-Out-Netting Regulation

3.1 Termination of incompletely settled transactions due to legitimate reasons and insolvency

(1) In as far as the transactions at Eurex Repo GmbH between Eurex Clearing AG and a Clearing Member have not been completely settled, they may only be terminated by the Clearing Member for legitimate reasons. This Part sets out the legitimate reasons which the Clearing Member has in connection with a delivery or payment default resulting from a Repo transaction.

(2) Any transaction which has not been completely settled shall end without notice of termination being required if Eurex Clearing AG should become insolvent. This is the case if the Federal Financial Supervisory Authority has filed for insolvency proceedings pursuant to Section 46 b paragraph 1 of the German Banking Act (KWG) or if a third person has filed for insolvency proceedings outside the scope of the KWG and if Eurex Clearing AG is insolvent at this point in time or in a situation justifying the opening of such proceedings.

(3) The other provisions of the Clearing Conditions and, in particular, those of Chapter IV Part 2 shall remain unaffected by this Part, unless otherwise provided here.

3.2 Legitimate reason

The Clearing Member shall have a particularly legitimate reason in connection with an outstanding delivery or payment resulting from a Repo transaction in the following cases:

a) In the case of an outstanding payment resulting from a Repo transaction, the Clearing Member shall only have a legitimate reason if Eurex Clearing AG is in default of payment within the meaning of this Part (number 3.2.1).

b) In the case of an outstanding due delivery resulting from a Repo transaction ("Delivery Default"), the Clearing Member shall only have a legitimate reason if Eurex Clearing AG has been put in default of service according to the provisions of this Part

(number 3.2.2) and, in addition, if Eurex Clearing AG is in default of payment (number 3.2.1).

3.2.1 Default of payment

(1) Eurex Clearing AG shall only be in default of payment in relation to a Repo transaction if

a) the pecuniary claim of the Clearing Member is due;

b) the entitled Clearing Member has notified Eurex Clearing AG of the outstanding payment;

c) the entitled Clearing Member has once again notified Eurex Clearing AG of the outstanding payment after expiration of at least three business days since the notification pursuant to item b;

d) Eurex Clearing AG has still not effected payment to the entitled Clearing Member after two further business days have expired.

(2) A payment shall be deemed outstanding within the meaning of this Part as long as no respective credit in favour of the entitled person is effected. Delays in effecting such credits for technical reasons or for reasons which are beyond the control of Eurex Clearing AG shall not be for the account of Eurex Clearing AG.

3.2.2 Default of delivery

(1) If no delivery is effected on the day of the front leg, only the provision set out in Chapter IV number 2.7 item a shall apply. For the payment obligation resulting therefrom, the provisions of this Part regarding default of payment shall apply.

(2) If no delivery is effected on the day of the term leg, Eurex Clearing AG shall be in default of delivery vis-à-vis the entitled Clearing Member, if the following conditions are fulfilled:

a) The Clearing Member must request the buy-in of the securities which have not been delivered pursuant to Chapter IV, number 2.7 item b. The buy-in procedure shall be carried out in accordance with the aforementioned provision unless otherwise provided in this Part.

b) The Clearing Member must have made a request for the claim to delivery to be converted into a claim to payment. This right exists at the earliest from the 15th business day after receipt of the buy-in request pursuant to item a.

(3) A delivery shall be deemed outstanding within the meaning of this Part as long as no credit has been effected in favour of the entitled Clearing Member. Delays in effecting such credit for technical reasons or for reasons beyond the control of Eurex Clearing AG shall not be for the account of Eurex Clearing AG.

(4) Eurex Clearing AG shall notify the Clearing Member, who has an identical obligation towards Eurex Clearing AG to deliver under the opposite Repo transaction ("Covering Transaction"), of the buy-in request. In this case, Eurex Clearing AG shall also be

entitled to request a buy-in from the Clearing Member. The buy-in procedure shall be carried out pursuant to Chapter IV number 2.7 item b. Upon notification of the buy-in request by Eurex Clearing AG pursuant to sentence 1, the Clearing Member who is obliged to deliver to Eurex Clearing AG shall only be entitled to discharge this obligation, if it has notified Eurex Clearing AG of its intention to deliver at least one business day prior to delivery; otherwise it has to accept and compensate all effects and expenses of a buy-in.

(5) On receipt of the transformation request according to number 3.2.2 (2) item b by Eurex Clearing AG the claim to delivery shall be converted into a claim to the payment of compensation ("Cash Compensation Claim") pursuant to number 3.2.3. The Clearing Member's shall then have no further claim to delivery. At the same time that the Cash Compensation Claim is created, the mutual obligations under the respective Repo transaction shall be netted against each other, producing a unified claim to payment ("Unified Claim to Payment").

(6) If a Clearing Member requests the transformation of a claim in accordance with number 3.2.2 (2) item b, Eurex Clearing AG, for its part, shall also be entitled to request from the Clearing Member who is obliged to deliver to Eurex Clearing AG that the relevant Covering Transaction be converted from a claim to delivery into a Cash Compensation Claim and to carry out such a conversion. The Cash Compensation Claim shall be calculated on the basis of the same current value of the outstanding securities as that taken to calculate the compensation owed to the entitled Clearing Member in accordance with number 3.2.3 (2). The provisions of this Part shall apply mutatis mutandis concerning the effects of accomplishing the conversion and calculating the Cash Compensation Claim. Eurex Clearing AG shall notify the Clearing Member who is obliged to deliver to Eurex Clearing AG when an entitlement to conversion arises and when this has been accomplished.

(7) On the creation of a Unified Claim to Payment in accordance with number 3.2.2 (5), Eurex Clearing AG shall initially be in default of service. The provisions regarding the occurrence of default of payment (number 3.2.1) shall then apply to any payment obligation incurred under the aforementioned provisions.

3.2.3 Calculation of the Cash Compensation Claim

(1) If transactions are terminated in accordance with number 3.1 (1), the Clearing Member ("Clearing Member Entitled to Compensation") shall be entitled to a Unified Cash Compensation Claim instead of a claim to delivery according to the aforementioned provisions. This claim shall be determined as set out under (2) and (3) below.

(2) In order to determine the value of the Cash Compensation Claim, Eurex Clearing AG shall be entitled to determine the current value of the securities to be re-delivered by obtaining quotations from at least three leading market participants of Eurex Bonds GmbH; the market value shall be the average value of the quotations given upon request ("mid market offer").

(3) When determining the value of the Cash Compensation Claim for the relevant Repo transaction, the market value determined according to paragraph (2) shall be multiplied by the number of securities owed, and not re-delivered, under the relevant transaction.

(4) Eurex Clearing AG shall notify the Clearing Member who is entitled to compensation and who is obliged to deliver to Eurex Clearing AG under the Covering Transaction of the value of the cash compensation so determined.

(5) To the extent that Eurex Clearing AG, for operational reasons, is not able to calculate the Cash Compensation Claim as set out herein, the Clearing Member who is entitled to compensation may itself make such a calculation as prescribed in this clause. This entitlement shall generally exist if Eurex Clearing AG should become insolvent.

3.3 Execution of a general close-out

(1) In as far as a Clearing Member, for legitimate reasons, is entitled to terminate Repo transactions which have not been completely settled, it may terminate all current or incompletely settled Repo transactions vis-à-vis Eurex Clearing AG ("Close-Out Request"). It shall not be possible to terminate part of a transaction or a part of all transactions.

(2) If incompletely settled Repo transactions are terminated pursuant to paragraph (1) or number 3.1 (2) or if they end automatically, all claims to delivery which have not been fulfilled shall be converted into Cash Compensation Claims in accordance with number 3.2.3 (1) or (3). In this case, the second day after termination has been triggered shall be the date when the value of the securities to be delivered shall be determined ("Agreed Settlement Date"). In the case of termination, neither of the parties shall be obliged or entitled to any deliveries, payments or any other performance which would have become due on the same day or later. These obligations shall be replaced by a claim of the type set out under (3).

(3) All Cash Compensation Claims which have become due for payment in accordance with paragraph (2) and any other claims to payment under the Repo transactions which have been terminated shall be netted to form a unified claim in accordance with number 3.2.2 (5).

3.4 Right of termination of Eurex Clearing AG in the case of Close-Out

(1) If incompletely settled Repo transactions are terminated by a Clearing Member for legitimate reasons in accordance with number 3.3 (1), Eurex Clearing AG, for its part, shall be entitled to bring forward the buyback date of the term leg of these Repo transactions to the date of the Close-Out Request as far as the relevant Covering Transactions are concerned.

Claims to delivery which become due as a result of an action pursuant to paragraph (1), no matter on which side, shall automatically be converted into a Cash Compensation Claim pursuant to number 3.2.2 (5); the Cash Compensation Claims shall be calculated on the basis of the same current value of the outstanding securities as that taken to calculate the value of the compensation owed to the entitled Clearing Member. The Cash Compensation

Claims determined in this way shall be netted against all other claims to payment that the parties have under Repo transactions to form a Unified Claim between the parties, according to the foregoing provision.

3.5 Formalities

Notifications, information and notices of termination within the meaning of this Part must be made in writing, by telex or fax or in a similar way. Notifications and declarations shall be delivered to the recipient by 8:00 a.m.; otherwise they shall not be deemed delivered until the next business day.

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