



Clearing

*The Global Clearing Link –
Your Access to Worldwide Liquidity*

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Changing the Industry – The Transatlantic Clearing Solution

Eurex Clearing AG and The Clearing Corporation (CCorp) have entered into a long-term agreement to create a transatlantic clearing solution for customers of Eurex and Eurex US. This first Global Clearing Link¹ will merge the liquidity pools of the most traded financial derivatives contracts in the world and offers extended high quality clearing services and risk management around the clock. The new trading and clearing opportunities will lead to a substantial economic growth in the futures industry.

Eurex, the world's leading derivatives exchange, entered the U.S. derivatives market by launching Eurex US as an independent, Chicago-based exchange under the full regulation and jurisdiction of the Commodity Futures Trading Commission (CFTC). Eurex US is owned by Eurex Frankfurt AG through a U.S. holding company and The Exchange Place Holding L.P. which represents 17 leading U.S. financial institutions.

Eurex Clearing AG was founded in 1998 as a wholly owned subsidiary of Eurex Frankfurt AG. Within its future-oriented strategy it has already become the central counterparty for business transacted on Eurex, Frankfurt Stock Exchange (Equities), Eurex Bonds and Eurex Repo. A further milestone in realizing its global strategy is the alliance with The Clearing Corporation. In September 2003 Eurex Clearing AG and The Clearing Corporation signed a seven-year contract with automatic renewal to provide clearing services for EU and U.S. products. This is the first step toward offering extended global clearing services and major advantages for all customers. All Eurex clearing members can now leverage their membership and infrastructure to broaden the product range with U.S. benchmark fixed income and index products. Under familiar clearing house rules and regulations (for example, default procedure), clearing members may enter into a foreign marketplace in a familiar environment.

The Clearing Corporation is a well established independent clearing house in Chicago with 67 clearing participants. As part of The Clearing Corporation's corporate and capital realignment on October 23, 2003, Eurex Frankfurt AG became one of its shareholders.

¹ The Global Clearing Link and its underlying concept are subject to approval by all applicable regulatory authorities.

Benefits of the Global Clearing Link

The Global Clearing Link offers a unique solution for global markets, enabling market participants worldwide to easily access a wide range of benchmark products. This creates enhanced member opportunities and allows continuous efficiency for fair and transparent markets. For the first time, customers will be able to leverage their existing infrastructures to access both U.S. and EU products.

The entire industry, including end users, broker dealers, and institutional investors in both markets, will benefit from enhanced:

Business Opportunities

- Lower entry barriers for customers to obtain access to Eurex and Eurex US due to choice of clearing.
- Increased market efficiency through better hedging opportunities.
- Transatlantic fungibility of benchmark EU products and a single open interest pool.

Operational Efficiencies

- Leverage existing clearing relationships to access a transatlantic marketplace.
- Cost savings through streamlined and consolidated processes.

Capital Efficiencies

- Efficient cross-marketplace risk allocation and collateral pooling.
- Cross-margining opportunities between U.S. and EU products.
- Single guarantee pool reduces total capital contribution.

Key Principles of the Global Clearing Link

Trading and clearing processes involved in the Global Clearing Link are built on a framework of three basic elements. Regulatory oversight, the legal relationship between a clearing member and its clearing house, and operations can all be based on one of these principles.

Primary Clearing House Principle

Each exchange is connected to a “primary clearing house” for all trades executed at that exchange.

- Eurex Clearing is the primary clearing house for all trades executed on Eurex.
- The Clearing Corporation is the primary clearing house for all trades executed on Eurex US.

Regulatory oversight of trade execution and the relationship between the exchange and its primary clearing house is determined by the location of the exchange on which the trade is executed. The CFTC is the regulatory agency for trades executed on Eurex US, for which The Clearing Corporation is the primary clearing house. The Exchange Supervisory Authority of the State of Hesse and the German Banking Supervisory Authority (BaFin) are the regulatory agencies for trades executed on Eurex, for which Eurex Clearing is the primary clearing house.

Destination Clearing House Principle

Each clearing member defines its legal framework for clearing depending on its membership decision. Clearing members only need a single contractual relationship to one clearing house. Thus,

- Eurex Clearing AG is the “destination clearing house” for all of its clearing members, and
- The Clearing Corporation is the “destination clearing house” for all of its participants.

The “destination clearing house” is responsible to its clearing members for risk management processes regardless of the exchange on which the trade is executed. Consequently, Eurex Clearing members may operate under their familiar clearing house rules and processes.

Home Country Clearing House Principle

The underlying product determines the operational procedures and infrastructure for clearing and settlement. Following this “Home Country Clearing House Principle”

- Eurex Clearing AG is the “home country clearing house” for EU products, and
- The Clearing Corporation is the “home country clearing house” for U.S. products.

The Clearing Corporation guides the rules and standards and facilitates position maintenance for U.S. products, while Eurex Clearing AG oversees the rules and standards and facilitates position maintenance for EU products listed at Eurex US and Eurex. Each clearing house also will incorporate the pertinent rules of the other clearing house in its own regulations as appropriate.

Smooth Implementation Through a Step-by-Step Approach

Three modules of the Global Clearing Link reflect different views and needs of customer groups. The following modules will be introduced in two phases in order to ease the implementation of the Global Clearing Link:

- EU Link
- U.S. Link
- Cross Link

EU Link

For the first time, market participants based in U.S. have the opportunity to clear European products traded at Eurex. Through the agreement between The Clearing Corporation and Eurex Clearing AG, all participants of The Clearing Corporation may clear specific EU products² traded at Eurex in U.S. via their existing clearing relationship. The clearing participants taking part in the EU Link benefit from portfolio margining and a single collateral pool as U.S. and EU product positions will be considered in one risk calculation. The opportunity to clear specific EU products in the U.S. lowers the entry barriers for additional Eurex members in the U.S., leading to additional liquidity on Eurex.

Clearing processing rules, including the variation margin calculation and the physical delivery cycle, will follow the Eurex Clearing AG standards. The Clearing Corporation will perform the initial margin calculation and collateral management using SPAN^{®3} methodology.

Product range available for clearing in the U.S.:

Interest Rate Derivatives

- Euro-Schatz Futures and Options on Euro-Schatz Futures
- Euro-Bobl Futures and Options on Euro-Bobl Futures
- Euro-Bund Futures and Options on Euro-Bund Futures
- Euro-Buxl[®] Futures
- One-Month EONIA Futures
- Three-Month EURIBOR Futures
- Options on Three-Month EURIBOR Futures

Equity Index Derivatives

- Dow Jones EURO STOXXSM 50 Index Futures
- Dow Jones STOXXSM 50 Index Futures
- DAX[®] Futures
- Dow Jones EURO STOXXSM Banks Futures
- Dow Jones STOXXSM 600 Banks Futures

² EU products permitted to be traded on Eurex trading terminals in the U.S. pursuant to CFTC staff no-action letter.

³ SPAN[®] is a registered trademark of Chicago Mercantile Exchange Inc., used herein under license. Chicago Mercantile Exchange Inc. assumes no liability in connection with the use of SPAN[®] by any person or entity.

U.S. Link

The introduction of the U.S. Link will provide clearing members of Eurex Clearing AG with the opportunity to clear U.S. products listed on Eurex US through their existing clearing membership. Eurex Clearing members will benefit from cross-margining between EU and U.S. products and a single collateral pool as U.S. and EU product positions will be considered in one risk calculation. This module of the Global Clearing Link enables users to access a new market and to extend the product scope without applying for a new clearing membership.

Product range offered at Eurex US:

- 2-, 5- and 10-Year Treasury Note Futures and Options on Futures
- 30-Year Treasury Bond Future and Options on Futures

In addition, Eurex US plans to list Russell indexes by the end of 2004.

Cross Link

Eurex and Eurex US plan to cross-list selected European benchmark derivatives, which will lead to 21-hour trading in these products. Eurex Clearing is the “home country clearing house” for all EU products, so the infrastructure and processing standards of Eurex Clearing apply to the clearing of EU products, regardless of where the trade was executed.

Subject to CFTC approval, the following European products are planned to be listed on Eurex US:

Interest Rate Derivatives

- Euro-Bund Futures and Options on Euro-Bund Futures
- Euro-Bobl Futures and Options on Euro-Bobl Futures
- Euro-Schatz Futures and Options on Euro-Schatz Futures

Equity Index Derivatives

- Dow Jones EURO STOXXSM 50 Index Futures
- DAX[®] Futures

The EU products listed on Eurex US will be fully fungible with the products listed on Eurex, so all clearing members benefit from keeping a single position.

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