X-pand into the Future

e u r e x *circular 118/06*

Date: Frankfurt, June 2, 2006
Recipients: All Eurex members and vendors, CCP members, Eurex Repo and Eurex Bonds members
Authorized by: Daniel Gisler

Stock Options on Spanish and Swedish Underlyings: Introduction at Eurex

Related Eurex Circular: 99/06

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Content may be most important for:

- Ü Middle + Back Office
- Ü IT / System Administration
- Ü Auditing / Security Coordination

Attachments:

1. Process Description: Introduction of Eurex Stock Options on Spanish and Swedish Underlyings
2. Form: SWIFT Address / BIC for Cash Settlement via CBF-CREATION Account

Summary:

Subject to the final decision on introduction by the Executive Board, Eurex Deutschland and Eurex Zürich AG are planning to expand the range of products currently tradable by introducing stock options on Spanish and Swedish underlyings after the production start of CCP Release 3.1. Through introducing these products to trading at Eurex Deutschland and Eurex Zürich AG, deliveries resulting from exercises and allocations in the underlyings will be transmitted to the CCP platform. Instruments to be delivered will be settled via a CBF-CREATION account in non-collective safe custody at Clearstream Banking Frankfurt.

Introduction of these new products is scheduled for the end of the third quarter/beginning of the fourth quarter 2006.

Attached to this circular are the documents which need to be returned by all Clearing Members and Settlement Institutions prior to the introduction of above-mentioned new products. This circular also provides descriptions of features and information about simulation.

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Stock Options on Spanish and Swedish Underlyings: Introduction at Eurex

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Functional Process Description "Introduction of Eurex Stock Options on Spanish and Swedish Underlyings"

This document provides supplementary information regarding settlement of the new products in the CCP system.

S.W.I.F.T./BIC Code

In order to generate and distribute cash instructions resulting from cash payments in connection with processing of Eurex deliveries for the CBF-CREATION cash account on behalf of a particular CCP participant, Eurex Clearing AG requires the S.W.I.F.T. address and Bank Identifier Code (BIC) of that CCP participant for identification.

Form: SWIFT Address / BIC for Cash Settlement via CBF-CREATION Account.

Set-up/Change/Deletion of Settlement Accounts

The instruments to be delivered out of Spanish and Swedish options are held in non-collective safe custody and can only be settled via a CBF-CREATION account. In the context of the CCP Release 3.1 introduction, the necessary forms have already been provided. These forms are relevant for CCP Clearing Members to specify a particular CBF-CREATION account which is to be used for settlement of aforementioned instruments. Set-up of a CBF-CREATION account or usage of a CBF-CREATION account held by third parties is mandatory for each Clearing Member for processing of the new products. Clearing Members are requested to submit the following forms, if not already done:

- Application for Set up/Deletion/Change of Settlement Accounts for Eurex Deutschland
- Request for Settlement Account Settings for EUREX Derivatives Deliveries (Previous CSD Selection)
- Power of Attorney (for Eurex delivery instructions to Clearstream Banking Frankfurt)
- Application for the Setup of a User in the CCP-System (@X-PERT)
- Request for Deletion/Modification/Password reset of User IDs in the CCP-System

To download your personal copies, please visit

www.eurexchange.com > Member Section > Documentation/Manuals CCP > CCP 3.1 > Legal Documents/Setup Accounts

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Simulation

As part of the CCP Release 3.1 simulation, Swedish and Spanish options will be available in the simulation environment of Eurex Deutschland and Eurex Zürich AG. Delivery instructions for underlyings resulting from exercises and allocations will be transferred to the CCP system for further processing. Settlement will take place via the CBF-CREATION account.

The following underlyings and corresponding options will be available in simulation **as of July 12, 2006**:

Name	ISIN	Eurex Option (OSTK)
Ericsson B	SE0000108656	ERCB
Hennes & Mauritz B	SE0000113094	HMSB
Repsol	ESO173516115	REP
Telefonica	ESO178430E18	TNE5

Hence simulation of these products is only possible if a CBF-CREATION account was given.

The CREATION settlement system will not be connected to the simulation. All settlement instructions will be set to “settled” and marked accordingly.

Installation of additional front-end software is not required.

Transactions in these securities originating from Xetra® or from Floor Trading of Frankfurt Stock Exchange will not be CCP-eligible.

Please refer to the Simulation Guide which was published on May 19, 2006 for details about the CCP Release 3.1 simulation. The Simulation Guide is also available on the Eurex website under

www.eurexchange.com > Member Section > Documentation/Manuals CCP > CCP 3.1 > Functional Documents

Frankfurt, June 2, 2006

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Process Description

Introduction of Eurex Stock Options on Spanish and Swedish Underlyings

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1 Management Summary

Eurex is planning to expand its product portfolio by offering Options on Spanish and Swedish equities. Exercises/assignments in these products create Eurex deliveries in instruments which are denominated in EUR and held in non-collective safe custody (NCSC). These trades are registered within CCP using CBF 6-series settlement accounts for settlement via Creation platform. Deutsche Bundesbank and Clearstream are supported as cash settlement locations. Please consider that processing of NCSC deliveries and subsequent cash payments takes place in the Creation system operated by Clearstream Banking Luxembourg but within the accounts legally related to the Central Securities Depository Clearstream Banking Frankfurt (CBF 6-series accounts).

All pending deliveries out of the new instruments are subject to corporate action processing executed on the CCP platform. Please be aware that corporate actions on pending trades are performed on record date basis and depend on issuer country rules.

Deliveries in Spanish and Swedish equities are subject to CCP processing based on the functionality defined for CCP 3.1. No changes to the member interfaces of the CCP platform are required. However, a Clearing Member/CCP Settlement Institution needs a technical connection to the Creation platform.

This document addresses market participants (especially Eurex Clearing Members and CCP Settlement Institutions) involved in deliveries out of Eurex derivatives transactions in Spanish and Swedish instruments. It provides additional information on how to handle the new products within the CCP.

The document is based on the CCP 3.1 Release Notes. Please refer to previous system documentations for a full description of the functionality of the CCP platform.

The document primarily aims at functionality and operational processes of the Members' middle and back offices. The technical section remains unchanged compared to the Technical Release Notes of CCP Release 3.1.

2 Member Structure and Set-Up

The new instruments are cleared using the existing clearing license for the Eurex Derivatives Equity Market. No additional clearing license is introduced. For more details about clearing licenses see the Final Release Notes CCP 3.1 chapter 2.1.

The following accounts are required to clear these deliveries in EUR settlement currency on the CCP platform:

- 6-series settlement account at CBF
- Cash settlement account at Deutsche Bundesbank (central bank money) or cash account related to CBF 6-series settlement account (commercial money)

As defined for CCP 3.1 the settlement account can be controlled on the level of the Trading Member (TM) and ISIN/currency/ account type. For Eurex deliveries a default setting of the TM per currency/account type is used, unless possible specific ISIN/currency/account type settings are defined. However, the respective CM has to decide on the default/specific setup to be used and communicate it to Eurex Clearing AG.

	Member ID Eurex	Account Type	ISIN	Cur	Trading Location	CCP Settlement Account	CCP Settlement Location	Member ID CCP
1	AAABB	A	ES0005140008	EUR	EUREX	61234	CBL	AAACP
2	AAABB	P	ES0007236101	EUR	EUREX	62345	CBL	AAACP

Table: Sample Settings for Account – ISIN – Clearer

To facilitate the settlement process for customers and to improve settlement efficiency Eurex Clearing AG acts via “Power of Attorney” (PoA) procedures. This enables Eurex Clearing AG to directly instruct the Member’s cash/settlement accounts. Members without an existing POA contract for the concerned CBF Creation account have to grant a Direct Debit Mandate to Eurex Clearing AG (“PoA” on cash/settlement accounts).

3 Process Overview

Deliveries out of Spanish and Swedish stock options are forwarded to and processed by the CCP platform analogous to Eurex deliveries introduced with CCP 3.1.

With CCP 3.1 all deliveries out of Eurex stock options result in instruments held in collective safe custody which are settled via CBF/SIS. Expanding the product range by options on Spanish and Swedish equities implies settling instruments which are held in non-collective safe custody (NCSC). These deliveries will be settled via Creation only, using the member's CBF 6-series account. Hence, all trades can be processed in Creation as "internal instructions".

Please be aware that clearing and settlement in Swedish equities takes place in EUR only and not in SEK. In case of multi-listed securities, settlement of internal instructions within Creation is associated with the home market as defined by Clearstream. The detailed instrument list is contained in section 12.

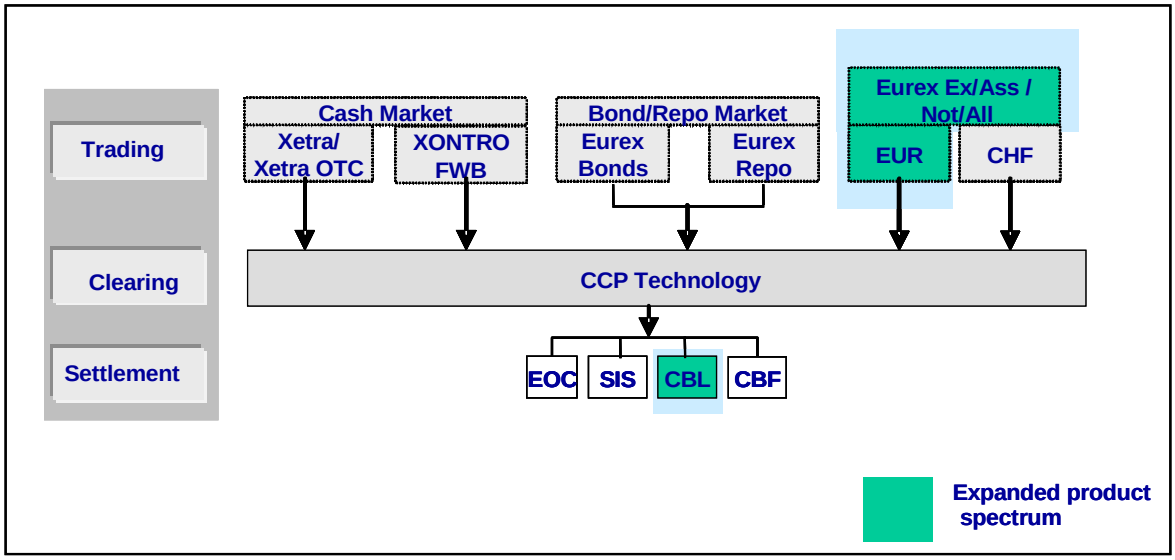


Figure: Integration of Eurex deliveries out of Spanish and Swedish stock options in CCP

For Eurex deliveries out of Spanish and Swedish stock options the standard CCP 3.1 processing applies:

- Deliveries are transmitted from Eurex to the CCP platform directly after Exercise/Assignment is executed (Trading Day T).
- CCP Trade Management is available online via VALUES API/@X-PERT GUI. Blocking/Releasing of trades is supported via member settlement instruction file additionally.
- Settlement for instruments held in NCSC takes place in Creation: One Night-Time Processing settlement run and several Day-Time Processing settlement runs are performed
- CCP Member Reporting is provided once for Night-Time-Processing and several times for Day-Time-Processing settlement runs
- Corporate action processing is performed by the CCP on entitled pending trades
- Risk-based margining is calculated on intra-day and end-of-day basis.

4 (Gross) Delivery Management

Eurex deliveries out of Spanish and Swedish stock options are available for standard Gross Delivery Management (GDM) and are settled via regular CCP delivery management. Standard settlement comprises settlement netting and assignment to a settlement location.

4.1 Gross Delivery Management

Trade Management for Eurex deliveries out of Spanish and Swedish stock options is facilitated by Gross Delivery Management (GDM) analogously to CCP 3.1. Please note that on settlement day a (partial) block request on trades in the new instruments is handled on best effort basis.

4.2 Settlement Netting / Settlement Locations

Each delivery is assigned for gross or net processing by the Member. Generally, trades are marked depending on the Clearing Member default processing method which is defined per settlement account. The existing set of CCP netting options is available (please refer to Release Notes 3.1, section 5.2 for further details):

- Gross processing i.e. no netting
- Dual Instruction Netting. After settlement netting surplus and cash instructions are created.

CCP performs one settlement netting per day per instrument that is settled at the same CSD. It is performed prior to the overnight settlement run so that corresponding settlement instructions are generated before the relevant nighttime deadlines. A surplus delivery that exceeds an instrument-specific size may be shaped into several parts.

For Eurex deliveries out of Spanish and Swedish stock options CCP only supports settlement via Creation using CBF 6-series accounts. No other settlement locations are supported. The settlement instructions are always created with Eurex Clearing AG (6-series account 67525) as counterpart.

Instructions of Eurex deliveries which were not settled within the mandatory settlement period on the Creation platform are cancelled at about 14:00 by CCP. These unsettled trades are processed subsequently in the next CCP settlement netting run and can be offset against new incoming trades (actual settlement day netting).

The existing deadlines with respect to GDM activities for EUR equity instruments are also valid for the new instruments.

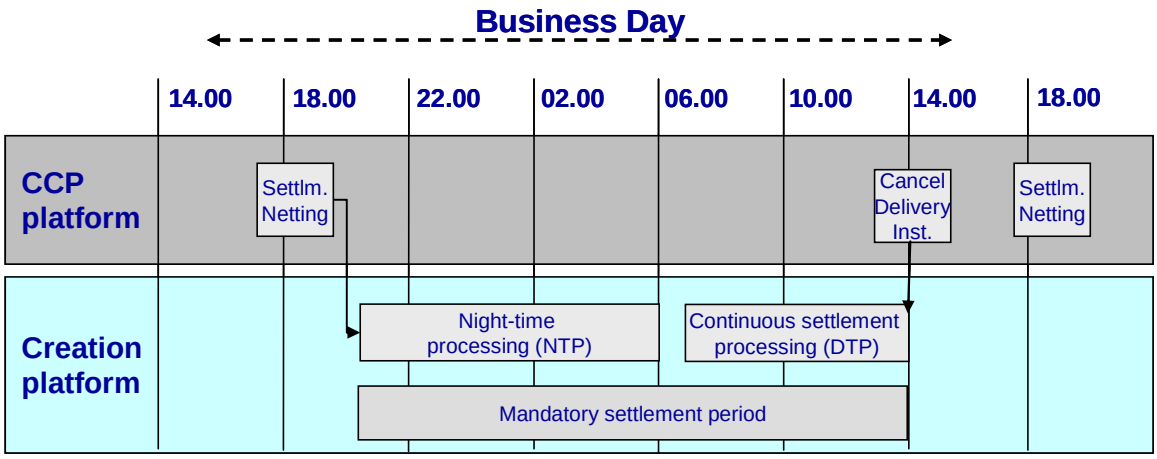


Figure: Instruction time line for NCSC equities

5 Cash Settlement & Cash Settlement Locations

CCP provides interfaces to Deutsche Bundesbank and Clearstream for payments resulting from the offsetting block and other payments (e.g. income payments).

Cash accounts serve to settle cash-only instructions at the supported payment locations Deutsche Bundesbank and Clearstream. For settling cash-only instructions out of the offsetting block or income payments in EUR, each Clearing Member has to specify a cash-only account for EUR settlement related to the CBF 6-series settlement account. This EUR cash account can either be the member's cash account at Deutsche Bundesbank or at Clearstream. Income payments in SEK will always be processed via the member's commercial bank money account at Clearstream.

6 Corporate Action Processing

Eurex deliveries out of Spanish and Swedish stock options are integrated in the existing corporate action processing performed by the CCP platform. For equity products, income as well as non-income events are performed automatically by the CCP platform. Income and non-income payments for Spanish and Swedish equities are calculated for pending trades on record date basis depending on issuer country rules. Please note that for Spanish equities the record date is equal to "CBF-Stichtag", whereas for Swedish equities record date is equal to Ex-Date +2. Regarding tax processing of income payments for pending trades the market standard rate applies.

7 Risk Management

Eurex Clearing AG provides central risk management by applying Eurex's Risk Based Margining method and reports risk positions to Clearing Members as with CCP 3.1. For further details see the Final Release Notes CCP 3.1 chapter 7.

8 Late Delivery Handling

The buy-in fees are calculated in the same way as for CCP 3.1 equities. For further details see the Final Release Notes CCP 3.1 chapter 9.

9 Member Interfaces

9.1 VALUES API

The existing functional CCP VALUES API request for Gross Delivery Management (GDM) remains unchanged. No additional requests are supported, but additional valid values for country code (“ES”, “SE”).

For further information, please refer to the VALUES API Member Front End Development Guide Release 3.1.

9.2 MSIF (Member Settlement Instruction File) / SWIFT Access

Eurex deliveries out of Spanish and Swedish stock options are available for blocking and releasing via the existing file based/SWIFT interface.

Gross Delivery Management is supported by the existing SWIFT formats 52x and 54x. Please note for MT523 / MT543 SWIFT format that the recipient field in header and record needs to be filled with 7525 for Eurex deliveries out of Spanish and Swedish stock options. For all EUR equities settled via CASCADE and NCSC instruments resulting from Corporate Actions in CSC instruments the recipient field in header and record still needs to be filled with 8501.

Please refer to document CCP Release 3.1 Member File Based & SWIFT Interface for further details.

9.3 CCP Member GUI

Trades out of the new instruments are available in the Gross Delivery Management functionality that is accessible by using the CCP Member GUI.

No changes in the Member GUI as well as in the values requests are needed. Additional values for the country code (“ES”, “SE”) are supported.

As regards filtering in the Settlement Results / Settlement Forecast Window, the following applies: in case of a request for equity (i.e. field ITYP equals EXS), currency EUR (i.e. field CURR equals EUR) without specification of an ISIN: If the settlement location is entered and this settlement location is CBL, then Eurex deliveries out of Spanish and Swedish stock options will be assumed. If no settlement location is entered or the entered settlement location is not CBL, then trades with settlement at CBF/SIS will be assumed.

9.4 Member Reporting

Member reporting will remain unchanged to CCP 3.1 (for details see the Final Release Notes CCP 3.1 chapter 8).

Eurex deliveries out of Spanish and Swedish stock options are reported in the existing reports. No format changes are required. For the delivery reports (CE260, CE265 and CE270) the continuous reporting model is used.

Please note:

MT536 SWIFT format: In continuous reporting the respective counterparty account at the respective CSD will be reported for deliveries, i.e. Eurex Clearing AG with settlement account 67525 at Clearstream for Spanish/Swedish instruments.

CE290 report (MT512 SWIFT format): Ex/Ass will be reported with counterpart 7525 (field 82D) for all NCSC instruments (Spanish and Swedish products).

In all reports concerned, the CBF 6-series accounts are reported with settlement location CBL. Therefore the trades for Eurex deliveries out of Spanish and Swedish stock options are reported in a different section than the trades settled at CBF.

The following table lists all reports in which data of the new instruments is reported:

Report ID	Report Title	Comment
RPTCA130	Compensation Partner	
RPTCA160	Custody Payment Statement	Field Entitlement Date corresponds to record date.
RPTCA180	Capital Adjustments on Trades	
RPTCB230	Daily Gross Delivery Mgmt	
RPTCB300	Daily Clearing Fees	
RPTCB310	Daily Service Fees	
RPTCD150	Cash Obligations	
RPTCD250	Settled Cash Transactions	
RPTCE260	Pending Delivery	Trades in Spanish and Swedish equities out of Eurex deliveries are reported in the continuous reporting model.
RPTCE265	Pending Delivery before NTP	
RPTCE270	Settled Delivery	
RPTCE290	Pending Eurex Delivery	

10 Member Connectivity Options and System Access

Member connectivity and system access remains unchanged compared to CCP 3.1. See the Final Release Notes CCP 3.1 chapter 10 for more details.

11 Preliminary Instrument List Eurex Underlying

Eurex Effective Underlying Classified	
ISIN	Short Name
ERICSSON B	SE0000108656
SKANDIA	SE0000113094
HENNES & MAURITZ B	SE0000106270
NORDEA BANK	SE0000427361
TELE2 B	SE0000314312
ELECTROLUX B	SE0000103814
SVENSKA CELLULOSA AB SCA SER. B	SE0000112724
BANCO SANTANDER	ES0113900J37
BBVA	ES0113211835
ENDESA	ES0130670112
IBERDROLA	ES0144580018
REPSOL	ES0173516115
TELEFONICA	ES0178430E18

SWIFT Adresse / BIC für die Geldverrechnung
via CBF-CREATION-Konto
SWIFT Address / BIC for Cash Settlement
via CBF-CREATION Account



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Auftraggeber (CCP-Teilnehmer) / *Applicant (CCP Participant)*

Name des Unternehmens / *Company Name*

Straße oder Postfach / *Street or Post Box*

Land, PLZ und Ort / *Country, Postal Code and Town*

Telefon / *Phone* Fax

E-Mail / E-*mail*

CCP-Member ID
(Assigned by Eurex Clearing AG)

Um im Auftrag eines CCP-Teilnehmers Geldinstruktionen aus Zahlungsströmen, die im Rahmen der Verarbeitung von Eurex Belieferungen anfallen, für das CBF-CREATION Geldkonto des CCP Teilnehmers zu erstellen und zu versenden, benötigt die Eurex Clearing AG zur Identifizierung des Teilnehmers die SWIFT-Adresse und den Bank Identifier Code (BIC) des Teilnehmers.

In order to generate and send cash instructions resulting from the processing of Eurex deliveries on behalf of a CCP participant, for the participant´s CBF-CREATION cash account, Eurex Clearing AG requires the CCP participant´s SWIFT address and Bank Identifier Code (BIC) for identification reasons.

☐ **Simulation / *Simulation***

SWIFT Adresse / BIC:

SWIFT address / BIC: _____/_____

☐ **Produktion / *Production***

SWIFT Adresse / BIC:

SWIFT address / BIC: _____/_____

Ort und Datum
Place and date

Unternehmensstempel und Unterschrift (Name in Druckbuchstaben)
Company stamp and signature of applicant (Name in capitals)