X-pand into the Future

e u r e x *information*

Date: Frankfurt, August 28, 2002
Recipients: All Eurex Clearing members and vendors
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Central Counterparty – CCP Circular 31/02

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Content may be most important for:	**Attachments:**
➲ Central Counterparty Coordinators	CCP Circular 31/02 (English/Deutsch) XONTRO Newsletter No. 6 (Deutsch/ English)

Please find attached a copy of Central Counterparty Circular 31/02 sent to Frankfurter Wertpapierbörse members and vendors recently.

The Circular provides further information on the effects of the CCP introduction on XONTRO and includes the XONTRO Brokers Newsletter No. 6 as an attachment.

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CCP Circular 31/02

Deutsche Börse

To the FWB Members, Xetra® Members and Vendors

Recipients: General, Traders, Back Office,
System Administrators, Project Coordinators

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Central Counterparty – CCP August 26, 2002
XONTRO Brokers Newsletter No. 6

Dear Sir or Madam,

As the CCP's implementation process continues, we provide you today with further information regarding the effects of the CCP introduction on XONTRO.

Attached to this circular, we are sending you the XONTRO Brokers Newsletter No. 6, which explains changes in the future treatment of brokers' open transactions (Aufgaben) and price differences. This document also illustrates effects on the brokers' daily transaction statement (Maklertagebuch) and the XONTRO brokers' system connection.

For any questions you may have, please do not hesitate to contact the CCP Change Management Team under

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Yours faithfully
On behalf of the Management

Jens Hachmeister Christian Ochsner

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91 days to go

Start of CCP simulation
on November 25, 2002

XONTRO Newsletter

Brokers

No. 6

XONTRO Brokers

Newsletter No. 6

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With this newsletter, we have discontinued the previous separation between „XONTRO-NEWS für Skontro führende Makler" (XONTRO-NEWS for lead brokers) and „XONTRO-News für Freimakler" (XONTRO-NEWS for independent brokers) and will from now on publish only one consolidated newsletter. This measure aims at streamlining our information supply. Contents of both newsletters had always partly covered the same areas. Furthermore, as the official exchange broker does no longer exist, all lead brokers are automatically independent brokers. We intentionally retain the traditional term „broker" for our newsletter.

1 Summary

The Frankfurt Stock Exchange (FWB) is planning to introduce a Central Counterparty (CCP) for equity trading in Xetra and XONTRO.

The purpose of this newsletter is to illustrate the changes that will come into effect in the XONTRO trading system due to the CCP introduction.

2 Closure of Brokers' open Transactions (*Aufgaben)* by the System

After the introduction of the CCP at the FWB, the closure of brokers' open transactions in instruments supported by the CCP in accordance with the valid regulations will be guaranteed. This is done by conversion of the open transaction into a proprietary trade of the involved broker against his depository bank. The conversion of open transactions will take place

- on the following day for open buy transactions
- on the second day for open sell transactions.

As the counterparty to this trade, the broker's depository bank receives a separate reference in the „proprietary trade" field of the trading contract note. As well, the involved broker receives a „ZS" notice in his daily transaction statement *(Maklertagebuch*), indicating the closure of the open transaction by the system.

3 Treatment of Brokers' Proprietary Trades

The broker may continue to enter his proprietary trades against a bank in BxBA and mark them as such. This flag will also appear in the relevant trading contract notes of the contracting bank and in the brokers' relevant documentation.

After the introduction of the CCP at the Frankfurt Stock Exchange, the broker may conclude proprietary trades in instruments supported by the CCP exclusively against his depository bank. This is ensured through respective plausibility checks in XONTRO.

4 CCP Information in the Brokers' daily Transaction Statement *(Maklertagebuch)*

For transactions in instruments supported by the Central Counterparty, the CCP directly enters into the trade at its conclusion and becomes counterparty to all trading members involved in the transaction. Therefore, from a trade between a buying bank A and a selling bank B, the following transactions arise:

1) buying bank A – Central Counterparty as seller
2) Central Counterparty as buyer – selling bank B

The brokers' daily transaction statement (*Maklertagebuch*) is the relevant reference for the trading activity of the broker. Therefore, it will continue to indicate the actual parties involved in the transaction (bank and broker). The familiar layouts will not be changed. Only the first row of a CCP-trade will show a specific flag.

This flag „CCP" appears in the 133-byte print layout of the brokers' daily transaction statement, from digit 127 onwards with a length of 3 digits. Normally, these digits show the different trade date (**AS**tt.mm). As trades with a different trade date (AS) are not supported in the first step of the CCP, those digits are available to display a CCP flag.

A CCP trade is assigned a second exchange trade number on the sell side. This exchange trade number is **always** consecutively numbered (+1) compared to the exchange trade number on the buy side. This second exchange trade number is only displayed on the contract notes of the selling bank. Only the contracting brokers of this transaction including the broker acting on behalf of the selling bank are shown the exchange trade number of the buy side. This is also valid in case several brokers, not acting on behalf of a bank, are involved in the transaction as so-called „intermediary brokers". This has to be considered in case data reconcilement between the selling bank and the broker takes place, but has no further functional impact.

Brokers, who process the daily transaction statement automatically, can easily determine the additionally generated trade number of this CCP trade by searching for CCP flags.

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        KURSDIFF.INSGESAMT                         0,00  PLUS              0,00  MINUS                    0,00  SALDO
        ANZAHL DER GESCHAEFTE       1
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Figure 1: Example of a *Maklertagebuch* for an open transaction closed by the system

[1] ZS flag = this open transaction has been closed by the system against the depository bank

[2] CBF account number of the broker's depository bank

[3] Broker's proprietary trade flag

[4] CCP-trade flag

5 Documentation and Settlement of Price Differences in CCP Trades

In contrast to non-CCP trades, price differences in CCP trades will in future occur at Eurex Clearing AG and no longer at the involved member banks. The settlement amount of involved member banks will thus not show any price difference (e.g. in the contract note), which means that a separate settlement procedure for price differences is not required.

The CCP receives information regarding price differences to be settled from XONTRO. These amounts are accumulated and the corresponding risk positions are calculated. Liability lies with the Clearing Member of the contracting broker. Settlement of price differences between the depository bank of the involved broker and the CCP continues to be performed through XONTRO/CBF via an LZB account.

As explained in chapter 4, the brokers' daily transaction statement *(Maklertagebuch)* will continue to show the actual contracting parties of the transaction (bank and broker). For CCP trades, the indication of price differences, that could possibly arise, are only relevant for the CCP and not for the stated bank.

In the daily price differences list, the CCP is stated with its CBF account number 8501, representing the exchange place Frankfurt.

No changes will occur regarding the settlement and the documentation of price differences, which may occur or be stated between brokers (trading among brokers).

6 Reversal of CCP Trades

The trade approval and complaint procedures are not affected by the introduction of the Central Counterparty. The trades have to be claimed with the respective broker before the opening of the next trading day. The originator of the CCP trade can reverse the trade by referring either to the exchange number of the buy side (retrievable from the broker‘s documentation or from the buy contract note) or to the exchange number of the sell side (only contained in the sell contract note) on the same day or on the next day until 03:00p.m. (currently valid deadline).

7 Brokers' System Connection

This section illustrates all adjustments, that have already been carried out for the CCP introduction on data field level, from the viewpoint of XONTRO brokers' system connection.

All fields stated below have already been implemented in previous releases of the XONTRO brokers' system connection. They are already available to the members. The specific fields are:

- **Proprietary trade flag**
  - acctTypCodXontro
  - acctTypCodXontroAsk
  - acctTypCodXontroBid
- **CCP trade flag**
  - EccpCod
- **Netting type flag**
  - netTypCodXontro
- **Flag of compulsory creation or closure of brokers' open transactions**
  - btradeEnfCod

Beside field names, field definitions and additional comments, the following chapters again provide all relevant Inquiries, Requests and Broadcasts that contain the corresponding fields.

7.1 Proprietary Trade Flag

Field name	Definition	Comment
acctTypCodXontro	char[2]	Field content: For Requests and Broadcasts referring to orders: 'blank' = no proprietary trade For Requests and Broadcasts referring to open transactions or trades: 'blank' = no proprietary trade EE = proprietary trade of the broker A = agent trade of the bank P = proprietary trade of the bank

Relevant Inquiries:

BC_INQUIRE_ORDERS_RID
BC_INQUIRE_BROKER_TRADES_RID

Relevant Requests:

BC_ENTER_ORDER_FM_RID
BC_ENTER_BROKER_TRADE_RID
BC_MATCH_BROKER_TRADE_RID
BC_ENTER_SINGLE_TRADE_RID

Relevant Broadcasts:

BCBE_ENTER_ORDER
BCBE_ENTER_ORDER_FM
BCBE_PEND_ENTER_ORDER
BCFE_ENTER_ORDER
BCFE_ENTER_ORDER_DIR
BCFE_REJ_ENTER_ORDER
BCFE_REJ_MODIFY_ORDER
BCFE_REJ_DELETE_ORDER
BCBE_ENTER_BTRADE
BCFE_ENTER_BTRADE

Field name	Definition	Comment
acctTypCodXontroAsk	char[2]	Proprietary sell trade flag field content: see field [acctTypCodXontro]
acctTypCodXontroBid	char[2]	Proprietary buy trade flag field content: see field [acctTypCodXontro]

Relevant Inquiries

BC_INQUIRE_BROKER_DIARY_RID

7.2 CCP Trade Flag

All Floor transactions, which result in a CCP trade, will be marked as such. Please also refer to the chapter “Informationen” in the brokers’ daily transaction statement (*Makler-tagebuch*).

Field name	Definition	Comment
EccpCod	char[1]	CCP trade flag field content: J = CCP trade 'blank' = no CCP trade

Relevant Inquiries:

BC_INQUIRE_BROKER_DIARY_RID

7.3 Netting Type Flag

This field will not be supported until further notice.

Field name	Definition	Comment
netTypCodXontro	char[1]	XONTRO netting flag. (will not be supported until further notice) field content: 'blank' = No netting A = Account level netting

Relevant Inquiries:

BC_INQUIRE_ORDERS_RID

Relevant Requests:

BC_ENTER_ORDER_FM_RID

Relevant Broadcasts:

BCBE_ENTER_ORDER
BCBE_ENTER_ORDER_FM
BCBE_PEND_ENTER_ORDER
BCFE_ENTER_ORDER
BCFE_ENTER_ORDER_DIR
BCFE_REJ_ENTER_ORDER
BCFE_REJ_MODIFY_ORDER
BCFE_REJ_DELETE_ORDER

7.4 Flag of compulsory Creation or Closure of Brokers' open Transactions

Field name	Definition	Comments
btradeEnfCod	char[1]	description: Flag of compulsory creation or closure of brokers' open transactions field content: A = compulsory creation of brokers' open transaction S = closure of the open transaction by the system After the introduction of the CCP at the Frankfurt Stock Exchange, the closure of brokers' open transactions in instruments supported by the CCP in accordance with the valid regulations by conversion into a proprietary trade of the broker will be guaranteed. blank = default

Relevant Inquiries:

BC_INQUIRE_BROKER_DIARY_RID

8 CCP Simulation

Under IMS27 and/or IMS73, BrainTrade Gesellschaft für Börsensysteme mbH will provide a technical simulation environment, which enables the customers to simulate XONTRO-Order and XONTRO-Trade applications for the CCP-relevant business transactions. The target group of the CCP simulation includes Settlement Institutions and Clearing Members. Participation of brokers in their function as intermediary in XONTRO is not planned.

Adjustments, which have been applied to the XONTRO brokers' system connection, will not be integrated in the guided CCP simulation.

Nevertheless, all members linked to the brokers' system connection have the possibility to test the relevant fields during the XONTRO simulation for Release 20 from October 7 until November 11, 2002. Registration forms for this simulation will be distributed by e-mail to all participants on October 2, 2002.

The actual CCP simulation for Release 21 starts on November 25, 2002 and will last for approximately 3 months.

The XONTRO-Order and XONTRO-Trade dialogue functions, as well as the system connection will be provided to the brokers only with limited availability on specific days. Beside the Frankfurt exchange place (IMS27), Stuttgart[5] (IMS73) will be provided as additional simulation exchange place.

We will provide further information regarding the availability separately. Regardless of availability limitations, we are convinced that you will have sufficient time to carry out your planned implementation and test activities using other exchange places as test data.

[5] During the CCP simulation, Stuttgart will be available as additional exchange place on selected simulation days. Further information will be provided to the customers in the document „Member Simulation Guide", which is yet to be published, and is available in the document „Simulation Scripts and Schedules". Please refer to the CCP communication calendar for the publication dates.