X-pand into the Future

e u r e x *information*

Date: Frankfurt, 20 February, 2002
Recipients: All Eurex Clearing members and vendors
Authorized by: Gregor Althoff

Central Counterparty – CCP Circulars 03/02 and 04/02

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Content may be most important for:	**Attachments:**
➲ Central Counterparty Coordinators	CCP Circular 03/02 (Deutsch/ English) CCP Circular 04/02 (Deutsch/English)

Please find attached a copy of the Central Counterparty Circulars 03/02 and 04/02 sent to FWB members and vendors recently.

Circular 03/02 included a Member Activity Plan and a Communication Calendar for the first quarter of 2002, as attachments. The German language version of Circular 03/02 also included an overview document describing the basic concepts of the Central Counterparty facilities.

Circular 04/02 contained the English language version of the Basic Concept Central Counterparty document.

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CCP Circular 03/02

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 January 31, 2002
Basic Concept Central Counterparty,
Member Activity Plan, Q1 2002
Communication Calendar Q1 2002

Dear Sir or Madam,

At the beginning of the rollout phase of the CCP (Central Counterparty) at the Frankfurt Stock Exchange (FWB), we are sending you enclosed the following documents:

Basic Concept Central Counterparty:

The Basic Concept Central Counterparty provides an overview of the scope and the major functionalities of the CCP. The englisch Version will be published shortly.

Member Activity Plan Q1 2002:

To ensure a successful CCP rollout, it is important, particularly in the initial phase, to prepare the necessary steps on the members' side as early as possible. The Member Activity Plan Q1 2002 gives an overview of essential activities which have to be performed by the members.

We will provide a comprehensive Member Activity Plan at the end of February 2002.

Communication Calendar Q1 2002:

The Communication Calendar Q1 2002 gives an overview of the relevant documents and their corresponding distribution dates for the first quarter of 2002.

All documents, which will be released in connection with the CCP introduction, will also be published on the Internet site of Deutsche Börse AG www.xetra.de and www.eurexchange.com.

General Managers:

Edward Backes
Dr. Heiko Beck
Rudolf Ferscha
Frank Gerstenschläger
Volker Potthoff

Both the Xetra Central Circular Management and the Eurex Central Circular Management will announce each document release by means of a circular. We recommend downloading the respective documents from the Internet as soon as possible.

All technical documents are written in the English language. As a rule, functional documents will be provided in both English and German.

Should you have further questions or need additional information, the Change Management Team CCP is available at

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Yours faithfully
On behalf of the Management

Enrico Isceri Jens Hachmeister

Enclosure

Deutsche Börse



Member Activity Plan CCP Q1 2002

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1 Introduction

Through the introduction of a central counterparty (CCP) for trades in selected instruments in the Xetra trading system as well as on the FWB Floor, the two-stage process chain of the securities industry will be enhanced by clearing facilities as an additional step on the process. Delegated by the Frankfurt Stock Exchange (FWB) to take on the function of a central counterparty, Eurex Clearing AG will introduce its existing clearing structure as well as several other new clearing and settlement functionalities on the cash market. In order to ensure a smooth CCP introduction for all FWB members, several activities need to be performed on the members‘ side.

1.1 Purpose of this Document

To ensure a successful CCP rollout, it is important, particularly in the initial phase, to prepare the necessary steps on the members‘ side as early as possible.

The present document gives an overview of essential activities that need to be performed by the members.

The purpose of the document is to

- provide Xetra members with a scheduled guideline of essential activities related to the introduction of the CCP.
- give an overview of important milestones before and during the introduction of the CCP,
- provide recommendations to support members’ own planning,
- list contact and support addresses relevant for members during rollout.

A comprehensive Member Activity Plan covering the entire rollout phase until production start will be distributed to the members at the end of February 2002.

2 Recommended Activities

2.1 General

The successful introduction of the CCP requires each member to set up an appropriate project organization geared to the specific needs and activities of the respective member. The following section contains recommendations for activities which should be taken into account for the members' in-house planning in connection with the CCP.

So-called 'checkpoints', which correspond to the central activities regarding the CCP introduction, are designed to ensure a smooth and efficient implementation on the members' side. Any such activities are specified in the following list.

2.2 Checklist

The following checklist including checkpoints is designed to serve as a guideline, which should be enhanced by specific in-house activities of the respective member.

The 'Focus/Activities' column briefly describes the activity with a keyword. A detailed description is given in the 'Description' column. The 'Target Group' column shows the resources/staff responsible for the activity. The 'Deadline' column indicates the time frame or the due date. The 'Chkpnt' column can be used to mark each activity as done.

2.2.1 Establishment of the Project Organization

The project organization should appropriately represent the departments trading, settlement, back office as well as the areas of risk management/controlling, finance, reporting, organization, floor management/IT development and further departments affected by the introduction of the CCP. The establishment of the project organization should be completed as early as possible.

The following checkpoints should be taken into consideration:

Focus / Activities	Description	Target Group	Deadline	Chk-pnt
Appoint contact persons	Contact persons and their representatives should be appointed latest on February 1, 2002.	Project Coordinator	01.02.02	Ö
Set-up of the internal organizational structure	• Designate one person responsible for the CCP. • Include all departments relevant for the CCP introduction in the project organization.	Project Coordinator	28.02.02	
Resource allocation	Work progress of the project must be guaranteed (e.g. during the holiday season).	Project Coordinator	permanent	

Focus / Activities	Description	Target Group	Deadline	Chk-pnt
Internal and external reporting structures	• Feedback/status reports to all departments involved, to the technical departments and to the recommended steering committees must be available. • In case of questions, please contact the Deutsche Börse AG or Eurex Clearing AG support teams.	Project Coordinator	permanent	

Given these conditions, project organization should be as clear and straightforward as possible. The easiest structure consists of a project organization formed by one single contact person; a more complex structure is a project organization which encompasses one or more teams from different fields and departments.

2.2.2 Planning of the Introduction

The most important decision on the members' side is to define the future clearing status. Depending on this decision, all necessary introduction processes have to be planned.
In the introduction plan, all necessary activities (concerning organization, technology, processes, staff) are described including results, responsibilities, time frames, deadlines and budgets.

When setting up the introduction plan, the following points should be considered:

Focus / Activity	Description	Target Group	Deadline	Chk-pnt
Selection of clearing status	Member's decision of its future clearing/settlement status.	Project Coordinator /Manage-ment	mid-March 2002	
Definition of project steps	Necessary project steps have to be defined for all areas and the respective persons responsible for each area must be appointed.	Project Coordinator	End of March 2002	

Focus / Activity	Description	Target Group	Deadline	Chk-pnt
Interfaces to other teams	Interfaces to other teams/projects (parallel re-organization) should be documented in this plan.	Project Coordinator	End of March 2002	
Project risk control	• Single activity risks should be documented and controlled. • To ensure the active management of critical paths and emergency plans, additional resources should be reserved during the entire length of the project.	Project Coordinator	End of March 2002	
Resource planning	Required staff (internal and external) and budget resources should be defined and kept available over the whole project period.	Project Coordinator	End of March 2002	
Inform Deutsche Börse AG and Eurex Clearing AG about any problem that occurs during the preparation phase	In case of any questions, please contact the Deutsche Börse AG or Eurex Clearing AG support teams.	Project Coordinator	permanent	

The introduction plan, adapted to the member's organization and the entire staff involved, should be set up until the end of March 2002.

2.2.3 Analysis of existing Processes and Systems and Re-Definition of the internal Flow Organization and Structural Organization

Based on identified process changes, system requirements, specifications and new processes, these processes must be re-defined in detail and connected in a new flow organization.

The following checkpoints can be useful:

Focus / Activities	Description	Target Group	Deadline	Chk-pnt
Detailed system analysis	Analysis of existing systems and possible modifications.	Project Coordinator	End of March 2002	
Detailed process analysis and description	A detailed analysis of existing processes and the description of modified processes should be available for the areas systems, flow organization/processes and structural organization.	Project Coordinator	End of March 2002	
Planning of system adaptations	Set-up of application development projects for each single system.	Project Coordinator	End of March 2002	
Documentation of proposed work flows	A summary of proposed workflow descriptions and modifications should be available.	Project Coordinator	End of March 2002	
Structural organization	Necessary modifications to the structural organization should be described, if needed.	Project Coordinator	End of March 2002	

3 Deutsche Börse AG and Eurex Clearing AG Support

Deutsche Börse AG and Eurex Clearing AG will provide intensive support for members' preparations during the introduction of the CCP. The following teams may be contacted concerning any questions related to the preparation of and participation in the CCP simulation and CCP introduction:

3.1.1 Deutsche Börse Change Management Team CCP

Tasks: member support for connection and admission before and during the simulation and at production start: contact in case of questions related to functionalities, coordination of information material for members

Telephone: ++49 (69) 21 01 – 16 40

Fax: ++49 (69) 21 01 – 16 41

Availability: 08:00 a.m. - 06:00 p.m. CET (on exchange trading days)

3.1.2 Deutsche Börse Trading Helpline Xetra & Eurex

Tasks: functional support regarding questions about trading during simulation and production

Telephone ++49 (69) 21 01 – 14 00

Fax: ++49 (69) 21 01 – 14 01

Availability: 07:00 a.m. - 08:00 p.m. CET (on exchange trading days)

3.1.3 Xetra/Eurex Customer Service Technical Helpdesk

Tasks: support during delivery and installation of the software kits, support in case of technical problems during the simulation

Telephone: ++49 (69) 21 01 – 84 00

Fax: ++49 (69) 21 01 – 84 01

Availability: 06:00 a.m. - 10:00 p.m. CET (on exchange trading days)

3.1.4 Xetra/Eurex Customer Service Technical Member Readiness

Tasks: co-ordination and support during the connection process of new members

Telephone: ++49 (69) 21 01 – 13 90

Fax: ++49 (69) 21 01 – 13 91

Availability: 08:00 a.m. - 06:00 p.m. CET (on exchange trading days)

E-mail: customer-service-xe@deutsche-boerse.com

3.1.5 Deutsche Börse Clearing Helpdesk Eurex

Tasks:	functional support regarding questions about clearing
Telephone:	++49 (69) 21 01 – 12 50
Fax:	++49 (69) 21 01 – 43 34
Availability:	07:30 a.m. – 09:00 p.m. CET (on exchange trading days)

Member Communication Plan Q1 2002

The following documents will be distributed to the members in Q1 2002:

	Q1/2002		
	January	February	March
Basic Concept Central Counterparty	31.01.		
Member Activity Plan Q1	31.01.		
Member Activity Plan		28.02.	
Legal Cornerstones		28.02.	
Functional Release Notes		28.02.	
Technical Release Notes		28.02.	
Member Interface Specifications		28.02.	
VALUES API Planning Version		28.02.	
Member Clearing Guide			28.03.

CCP Circular 04/02

To the FWB Members, Xetra® Members and Vendors

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

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Central Counterparty – CCP February 14, 2002
English Version of the
Basic Concept Central Counterparty for Equities

Dear Sir or Madam,

With CCP circular 03/02 dated January 31, 2002, we distributed the Member Activity Plan and the Communication Calendar for the first quarter of 2002 as well as the German version of the Basic Concept of the Central Counterparty for Equities.

Today we are sending you the English version of the Basic Concept, which provides an overview of the scope and the major functionalities of the CCP.

We would like to take this opportunity to inform you that the Change Management Team CCP is available not only via telephone and fax but also via e-mail at

Change-Management@Deutsche-Boerse.com

Yours faithfully
On behalf of the Management

Enrico Isceri Jens Hachmeister

Enclosure

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Central Counterparty for Equities (CCP)

Basic Concept Central Counterparty for Equities

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1 Summary

1.1 Introduction

The introduction of the Central Counterparty (CCP) for cash trades on Xetra and on the floor of the Frankfurt Stock Exchange (FWB) is a leading step of great significance for the future of the financial center Frankfurt, the German capital market and its participants.

The successful introduction of central counterparties (following the US example) in the important financial communities of London and Paris signifies the recent flux of the European industry structure. To maintain the competitiveness of the financial center Germany, it is strategically essential to introduce the Central Counterparty to the German cash market.

By introducing a Central Counterparty for equities, the value chain of the capital market industry for cash instruments will be significantly expanded and thus the pre-requisite for efficient trading and clearing fulfilled. Deutsche Börse AG (DBAG) will lay the cornerstone to adapt to the new European industry standard.

With the start of the "Central Counterparty for Equities" project last year, market participants of FWB and Deutsche Börse AG jointly took the opportunity to utilize the benefits of the industry standard at an early stage, and to position themselves for future harmonization and consolidation efforts in the trading, clearing and settlement areas of the European capital market.

In the dialog between market participants represented in the Stock Exchange Council committees and Deutsche Börse AG during the last months, the Central Counterparty concept was further detailed to highly fulfill the requirements of the German market and its participants.

The current overall concept of the Central Counterparty, of which the core elements will be further explained, and the future extension of this functionality by OTC business and the inclusion of the regional exchanges allow a realization of middle to long term substantial value-added potential as well as safeguarding the outstanding position of the financial center within the European context.

The trade, risk and clearing-oriented functionality of the Central Counterparty is the basis of the value-adding potential, through which a sustainable increase in efficiency and cost reduction potential in securities trading and clearing can be achieved. As a result of the anonymity of all trading and clearing steps and the introduction of additional service functionality, increased efficiency and flexibility can be expected in trading. In comparison to a pure gross view, the offsetting of risk positions in the cash market minimizes the total collateral to be pledged for risk management. In the long run, the attainable reduction in the number of settlement instructions allows market participants to realize cost reduction potential in their settlement departments.

The full benefits of the Central Counterparty will be realized with the introduction of its overall scope: the processing of equities held in collective safe custody (CSC) and in non-collective safe custody (NCSC) as well as the inclusion of OTC business. This will enable a consequent utilization of the provided netting functionality and the cross-margining algorithm across all instruments and market segments.

The introduction of the first release of the Central Counterparty for Equities represents an indispensable pre-requisite. The step-wise implementation minimizes the project risks for market participants as well as for the Deutsche Börse AG.

This document describes the fundamental functionalities and features of the Central Counterparty. In the first release, Eurex Clearing AG acting as Central Counterparty will support German equities held in CSC, traded on Xetra and Euro-denominated for trades executed on the supported trading platforms.

The introduction of the Central Counterparty for Equities extends the scope of services provided by Eurex Clearing AG by the following functionalities:

- The CCP automatically becomes Counterparty for every on-exchange trade on the supported trading platforms for German equities held in CSC, traded on Xetra and Euro-denominated. This means the CCP becomes buyer to each seller and seller to each buyer. Thus Eurex Clearing AG guarantees a service which in general consists of the fulfillment of each relevant trade.
- The risk management functionality of the Central Counterparty will be an extension of the already existing and established Risk Based Margining (RBM) concept of Eurex Clearing AG. The extension of the RBM will include adjustments reflecting specific requirements for cash market transactions. With regard to equity trades supported by the Central Counterparty, RBM replaces the risk management concept currently provided by the system “Engagement-Kontrolle-Neu” (EK-Neu). For brokers’ open transactions (“Aufgaben”) and trades in equities not supported by the Central Counterparty, EK-Neu continues to provide risk management services.
- The pledging of collateral for margin requirements continues to exist in its current form regarding the type of securities accepted by Eurex Clearing AG, as well as the process itself. This means that one common process in one common infrastructure is provided for collateral management of cash and derivatives market transactions.
- With the introduction of the CCP, the current two-stage trading and settlement process chain will be extended by the clearing functionality of the Central Counterparty. This is represented in the new structure which includes a clearing membership (General Clearing Members / GCM, Direct Clearing Member / DCM), non-clearing membership (Non-Clearing Member / NCM) and settlement participants in the cash market. Therefore, in the future, three possible roles for cash market participants will exist:
  - Trading Member (NCM)
  - Clearing Member (CM)
  - Settlement Participant

  Market participants can specialize in one specific role or combine roles.
- The Eurex CMs are contractual partners of Eurex Clearing AG for each executed trade. The actual settlement of trades can be executed by the CM or by one or more settlement participants of the CM. (In this document, settlement participants and CMs / trading members who perform settlement themselves will be referred to as settlement institutions from this point on).
- To achieve a high delivery discipline, efficient measures in case of delays in delivery will be put in place in addition to the implementation of an efficient delivery process.
- The continuous contractual netting of delivery and payment obligations enables a current view of the net obligations and thus a reduction of the total settlement volume as well as a reduction in the number of settlement instructions. Through continuous contractual netting, the number of settlement instructions between a CM and the central securities depository Clearstream Banking

Frankfurt (CBF) or between a CM and his NCMs can be reduced to one net delivery instruction per equity. This net delivery instruction will be settled through respective debit and credit bookings in the relevant settlement accounts held at CBF and accounts held at LZB.

- The CCP supports trading platforms (currently planned for Xetra trades) that optionally offer the possibility to group partial executions on order level (aggregation on order level). The market participant specifies the default setting for aggregation on order level by standing instruction.
- The Central Counterparty provides a so-called Gross Delivery Management service, through which a participant receives a gross view in addition to the net view and disposition possibilities on a gross basis (for example blocking and releasing of single trades). Therefore the benefits of risk netting are combined with only few process adjustments for the participant.
- Selected trades can optionally be marked for gross processing (also available as default setting).
- All custody events are processed for pending CCP-relevant trades by the CCP. Thus Eurex Clearing AG accepts guarantee for such ancillary rights.

1.2 Business Objectives

The business objectives of a Central Counterparty for equities are:

- Insulate against Counterparty Risk
  Eurex Clearing AG takes over the counterparty risk for each on-exchange trade executed on a CCP-supported trading platform in German equities held in CSC, traded on Xetra and Euro-denominated equities. The Central Counterparty thus becomes the contractual partner of every trade at the moment of execution.
- Reduction of Settlement Volume and in Number of Delivery Instructions
  Through contractual netting and the consequently possible settlement netting, the settlement volume will be reduced significantly. The number of delivery instructions as well as the risk of fails will be reduced. By marking specific trades for gross processing, such trades can be excluded from contractual netting. Due to contractual netting, the required collateral will be substantially reduced.
- Central Risk Management
  A central risk management (based on the Risk Based Margining concept of Eurex Clearing AG) with current calculation and reporting of risk positions to market participants will be provided.
- Efficient Calculation and Allocation of Collateral
  Compared to a pure gross view, the offsetting of risk positions in the cash market will reduce the total collateral to be pledged for risk management. Furthermore, it is possible to combine the pledging of collateral for different trading platforms of the cash market and derivatives positions at Eurex.
- Post-Trade Anonymity
  The existing pre-trade anonymity of the order book is extended to the subsequent processes up to the settlement of the trades specified.
- Extension of Trade Management and Delivery Process
  Members have the opportunity to make dispositions regarding the delivery of all sell trades via an appropriate user and/or a file-based interface. This functionality (Gross Delivery Management) is

available from the execution of the trade. This means that disposition is possible already on the trading day.

- Integration of the CCP into the existing Infrastructure
  As the implementation of the CCP will be based on existing systems of Deutsche Börse Group AG and Clearstream Banking Frankfurt, all processes in connection with the Central Counterparty can be established on the existing systems Xetra, XONTRO, Eurex Clearing and CASCADE. Thus the majority of participants is already connected to the trading, clearing and settlement systems relevant for the CCP, which reduces necessary changes on the participants' side.
- Harmonization of Processes and Connections
  Though the introduction of the CCP as Central Counterparty, existing processes and connections regarding all instruments will be harmonized in the long term. The concept allows the connection of further CSDs in the future.

1.3 General Features of the CCP

Below is a short description of the core elements and features of the CCP:

- Instruments relevant for the CCP
  In the first release of the Central Counterparty, on-exchange trades executed on either Xetra or the FWB Floor in German equities, held in CSC, traded on Xetra and Euro-denominated will be supported.
- Trading Platforms
  In the first release, the trading platforms Xetra and the Floor are supported. As the CCP is based on the existing systems of the Deutsche Börse Group AG and CBF, a connection to the regional XONTRO-connected exchanges (in addition to the connection to the FWB – "Frankfurter Wertpapierbörse" Floor) is possible already with the first release and can be realized at short notice after a respective decision was made by the regional exchanges.
- Membership
  With the introduction of the Central Counterparty, there will be trading, clearing and settlement members. The CM membership is distinguished between GCMs and DCMs. A GCM is entitled to clear proprietary trades, agent trades as well as NCM trades. A DCM is allowed to clear proprietary trades, agent trades and trades of subsidiaries without clearing licenses. A NCM may enter proprietary trades or trades on behalf of a customer and uses a CM for the clearing of his trades. CMs are obliged to comply with specific requirements according to the status selected. They have to fulfill minimum liable equity capital requirements specified by Eurex Clearing AG and make contributions to the Clearing Fund. The minimum liable equity capital requirement can also be fulfilled by a guarantee from a third-party bank or by pledging securities. The CM can authorize a settlement institution to undertake the responsibility for the timely fulfillment of the CM's obligations. However, liability remains with the CM.
- Default of a CM
  The general procedure in case of the default of a CM is the same as is currently applied at Eurex Clearing AG. The pledging of collateral and, as a further line of defense, contributions to a clearing fund cover the CM default risk (based on the risk position calculation).

- Handling of Price Differences
  With the inclusion of Floor trading, price differences resulting from broker's trades (which corresponds to a trading member within the CCP functionality) will be included in the risk based margining calculation. The CM of the respective broker is liable for settlement.
- Treatment of Brokers' Open Transactions ("Aufgaben") and Cancellations
  The CCP becomes the counterparty of a trade resulting from a broker's open transaction at the time of the closing of the open transaction against a broker's (trading member) CM. If an open transaction is not closed timely according to the rules and regulations, it will be automatically executed against the broker's CM and marked as a proprietary trade of the broker. The cancellation possibilities for floor trades remain unchanged after the introduction of the CCP.
- Connection to the Central Securities Depository (CSD)
  In the first release, the CCP will be connected to Clearstream Banking Frankfurt (CBF) as CSD. CBF will continue to settle relevant trades by executing the respective debit and credit bookings on the CBF accounts involved according to the corresponding delivery instructions generated by the CCP. The CCP provides necessary information for the delivery process and for gross delivery management in the form of reports and raw data.
- Procedure in case of Late Deliveries
  Should late or partially late deliveries occur in spite of more efficient processes, a significantly reduced settlement volume and improved delivery reliability, Eurex Clearing AG will levy fines and interest payments from the seller. If the obligation still exists after a defined time, Eurex Clearing AG will initiate buy-in steps. If this is not successful, a final cash settlement will be performed 30 business days after the intended fulfillment day. Eurex Clearing AG reserves the right to claim further compensation, if necessary. The CCP concept supports an optional settlement lending / borrowing process which has to be performed by the CM as delivering party / CM's settlement institution. The securities lent to the CM or settlement institution responsible for settlement will be taken into account by the CCP. CBF will provide the lending / borrowing functionality that is necessary to provide an efficient lending / borrowing process.
- Transfer of Trade Data
  The trade flows of all connected trading platforms will be transferred promptly to the CCP so that the gross delivery management functionalities will be available on the same trading day. Furthermore, unusual positions, price movements and/or volumes are monitored by the CCP.
- Trade Confirmations
  NCMs, their respective GCMs as well as involved settlement institutions will receive trade confirmations after the trade execution. CMs are thus able to monitor the risk of their NCMs. In case of aggregation on order level (trading platform dependent), the initial trade confirmation may be updated due to consecutive partial executions (update trade confirmations).
- Disposition of Trades
  After transmission of trade data to the CCP, settlement institutions can modify the settlement parameters in gross delivery management. For example trades may be released or blocked. With the introduction of the CCP, CCP relevant trades will no longer be available in the "Lieferfreigabe on-line" (LION) system.
- Settlement Netting
  In settlement netting, a delivery versus payment (DvP) transaction and a cash booking will be

created for the net obligation (established through contractual netting). Thus, the result of settlement netting will reflect the legal process of contractual netting.

- Currencies Supported by Eurex Clearing AG
  The CCP will support multiple currencies as is currently done by the Eurex Clearing AG systems. However, all equities in the scope of the first release are traded and settled in EUR. For clearing purposes (e.g. pledging of collateral), all currencies supported today will be available.
- Regulatory Reporting according to §9 WpHG and in the Context of the German Foreign Trade Regulation ("Außenwirtschaftsverordnung" - AWV)
  As all trades are executed against the CCP, a domestic counterparty, no reporting on foreign counterparty payments in the context of the German Foreign Trade Regulation is required by participants as far as domestic securities are concerned, this will be performed by the CCP. Furthermore, the CCP ensures that market participants may continue to comply fully with the §9 WpHG regulations by reporting their activities on a single trade basis using the existing interfaces (trade confirmations and / or contract notes).

1.4 Further Enhancements of the CCP Scope

Below possible enhancements of the CCP scope are described:

- Inclusion of additional Instruments
  The step-wise enhancement of the product range with foreign equities held in collective safe custody and in non-collective safe custody, OTC trades, fixed-income bonds and selected warrants is part of the concept for future releases of the CCP.
- Inclusion of additional Exchanges / Trading Platforms
  The inclusion of the regional exchanges is conceptually possible already in the first release of the Central Counterparty and can be realized within a short timeframe. Similarly, in future, trades resulting from exercises/assignments at the Eurex derivatives exchanges will be integrated into the delivery process of the CCP.
- Support of additional CSDs
  Further CSDs, in addition to CBF, can be supported in future releases.
- Cross Margining
  In future releases, cross-margining, i.e. offsetting of margin requirements resulting from equity trades against reverse derivatives positions of the same security type, will be available.
- Enhancement of Trade Management Functionalities
  In gross delivery management, fundamental functionalities of trade management (e.g. release or blocking of trades) are already provided. Those functionalities can be enhanced by, for example a give-up / take-up functionality.

Functional enhancements will generally be implemented in steps. Participants will be allowed enough time for necessary implementation measures.

2 Structure of the CCP

The following figure illustrates the process flow of an order executed on a trading platform and the subsequent processing.



Figure 1: Process Flow of an Order

Four of the above-mentioned areas are affected by changes in the context of the CCP introduction. These are:

- Trade Management including Gross Delivery Management
  The introduction of the Central Counterparty provides the possibility to perform trade dispositions via the gross delivery management system (e.g. blocking / release of trades) directly after execution. Furthermore, the possibility of providing an optional aggregation on order level as well as additional trade management functionalities will be available.
- Risk Management
  The risk management (based on the existing Eurex Clearing AG Risk Based Margining concept) contains the calculation of member-specific risks using information on net positions as well as information on gross positions for trades marked for gross processing by the participant. The risk positions are differentiated between agent and proprietary business for the respective CMs and NCMs. The risk positions are reconciled against the pledged collateral.
- Collateral Management
  For collateral management, the existing functions and procedures of Eurex Clearing AG are applied.
- Delivery Process
  The CCP creates delivery instructions for due trades, which are forwarded to CBF for settlement processing. Eurex Clearing AG monitors the status of pending deliveries. In case of a late delivery or member default, appropriate actions are initiated in order to protect the receiving party and the clearinghouse.

3 Components of the Functional Model

3.1 Participant and Account Structure

3.1.1 Participant Classification

With the introduction of the CCP, the Eurex clearing structure will be integrated in the existing trading and settlement structure of the cash market. Eurex Clearing AG thus distinguishes between the following areas:

- Trading
- Clearing
- Settlement

An institution may perform the functions associated with one or more of these areas provided it complies with the associated pre-requisites.

Eurex Clearing AG distinguishes between the following participant classes:

- Trading member (Non-Clearing Member, NCM): A trading member / NCM is a participant at one of the supported trading platforms. Own orders and/or orders for customers can be executed, but clearing or settlement cannot be conducted directly with the Eurex Clearing AG. An NCM uses a CM or settlement institution to clear and settle its trading business.
- Clearing member (CM): A general clearing member (GCM) can clear proprietary trades, trades of its agents and the trades of all trading members without a clearing license (non-clearing members, NCM) with which it has entered in a clearing arrangement. A direct clearing member (DCM) is only entitled to clear proprietary trades, the trades of its agents and trades of own subsidiaries without a clearing license. CMs have to fulfill certain pre-requisites such as being subject to minimum liable equity capital requirements and contributions to the clearing fund.
- Settlement participant: A CM can authorize one or more settlement participants to perform the timely fulfillment of the CM's obligations. Nevertheless, the CM remains liable. Settlement participants as well as CMs / trading members, who perform settlement themselves, will jointly be called settlement institutions in this document.

3.1.2 Multiple Settlement Accounts

Participants have the possibility to use several settlement accounts at CBF[1]. Using multiple settlement accounts enables the administration of executed trades according to member-internal requirements (e.g. for separation of different CMs/NCMs, for separation of proprietary business and agent business, or for the differentiation of market segments).

[1] This takes place via the CM / settlement institution unless the participant is a settlement institution.

3.2 Gross Delivery Management

3.2.1 Purpose of Gross Delivery Management

Gross delivery management will provide the possibility to use single trades as a basis for disposition and further internal processing. Thus, the benefits of contractual netting will be combined with only few process adaptations on the participant side.

3.2.2 Functionalities of Gross Delivery Management

Trades will be available within gross delivery management directly after trade execution. Settlement institutions will have the possibility to apply certain functions to such trades. Gross delivery management will include the following transactions: blocking as well as the (partial) release of sell trades, (automatic) linking and the marking of trades for net or gross processing.

Disposition can be performed on a single trade basis. If the participant selects aggregation on order level (trading platform dependent), all partial executions of an order will be accumulated to one trade. Otherwise, every partial execution of an order represents a trade.

The following functions of gross delivery management will be available from trading day T after the trade execution or after the generation of the contract note ("Schlussnote") respectively:

- Online Inquiry of Trades
  All trades can be inquired. This includes the current settlement status and blocking status per trade.
- Blocking of Trades
  The settlement of sell trades can be blocked by the settlement institution. Alternatively, the settlement institution can set a default parameter to automatically block all trades ("positive release method").
- Full Release of Trades
  Sell trades can be released for settlement by the settlement institution. Alternatively, the settlement institution can set a default parameter to automatically release all trades ("negative release method").
- Partial Release / Blocking of Trades
  Trades can also be partially released or blocked for settlement by the settlement institution.
- Manual Linking of Trades
  Settlement institutions can link the settlement of a sell trade with the successful settlement of a buy trade with the same or a higher number of shares[2]. Thus, it will be ensured that the buy trade fulfills the sell trade. The linking functionality will only be available for trades, which are subject to net processing. In case of aggregation on order level (trading platform dependent), linking is not possible on trading day T unless the underlying order of the trade is fully executed or the end of trading is reached. The full execution will be displayed within gross delivery management.

[2] I.e. one sell trade is linked with one buy trade.

- Automatic Linking of Trades
  A settlement institution will have the possibility to automatically link sell and buy trades[3] by using a reference field. The functionality of automatic linking will only be available for trades, which are subject to net processing.

- Marking trades for gross processing
  Trades marked for gross processing will be considered separately in risk management and ignored in the settlement netting process. A single delivery instruction will be generated and forwarded to CBF for each trade marked for gross processing. For trades marked for gross processing, Eurex Clearing AG will reserve the right to link the execution of the delivery process to a sufficient amount of pledged collateral.

The gross delivery management functionality will also be available for all positions created through corporate actions.

The reports provided by gross delivery management will be made available in the already known formats and contents of CBF (refer to 3.5.3 Key Reports in Gross Delivery Management).

3.3 Processing of Corporate Actions

Corporate actions will be fully processed within gross delivery management for all CCP-relevant trades. Depending on the type of corporate action, processing will be as follows:

- Dividend payments / bonus payments
  Payments related to income events such as dividend payments or bonus payments, will be deducted from the seller and paid to the buyer. Payments will be initiated by the CCP via the LZB ("Landeszentralbank", Land Central Bank) accounts of the related settlement institutions. Analogous to the current processing at CBF, dividend or bonus payments will be made after distraction of capital withholding tax and solidarity tax ("Kapitalertragssteuer" and "Soldaritäts-zuschlag").

Non-income events consist of the processing of enhancements of rights and the exchange of equities. Depending on the type of non-income event, the processing on pending trades will differ:

- Enhancements of rights (e.g. subscription rights, partial rights)
  For the enhancement of rights, additional delivery and risk positions will be created. The additional delivery positions will obtain a status according to an agreement between the CM and the settlement institution regarding new trades ("blocked" / "released" if "positive release method" / "negative release method" was selected).
  In case of re-runs (i.e. corrections of previously processed corporate actions), already settled delivery positions resulting from corporate actions will be reprocessed. Either an offsetting delivery instruction will be generated or – for exceptional events – a compensation partner[4] will be named. This will be considered in risk management. The compensation is regarded as finalized and the risk position will be modified correspondingly after a successful settlement.

- Exchange of equities (e.g. split, merger)
  Affected trades will be adjusted, i.e. the number of shares will be adjusted proportionally and if

[3] I.e. *n* sell trades can be linked to *m* buy trades.
[4] A compensation partner is a settlement institution with offsetting obligations. Compensation partners are named in cases, where CBF does not perform automatic compensation but dismisses a safe custody receipt / certification.

necessary, the notation/ISIN will be changed. The modified trades will inherit all attributes (like "blocked" / "released", etc.) from the original trade.

The cancellation of trades on T+1, i.e. one day after trade execution, will automatically be considered for all dividend and bonus payments and the processing of all non-income events.

Gross delivery management will offer an additional reporting on a gross basis for all corporate actions. This reporting will be similar to the existing reporting at CBF.

In gross delivery management, the same functions as for the underlying trades can be applied to obligations modified or newly created by corporate action events.

3.4 Risk Management of the Clearinghouse

3.4.1 Objectives

The CCP will enter into every relevant trade as Central Counterparty. The CCP will thus take over the risk on the buy / sell side and will be responsible for the fulfillment on the sell / buy side of the obligation.

A sound risk management system is the basis to provide credible protection to CMs and the clearinghouse against the default of other CMs. It will be guaranteed that the clearinghouse can fulfill its obligations to CMs at anytime.

The specific objectives are:

- Safeguarding against the predictable loss resulting from a CM's default on any given day by means of coverage by CM pledged collateral. Coverage of a non-predictable loss by additional pledging of collateral (see section 3.4.6 Clearing Fund).
- Straightforward handling for all CMs by the re-use of risk management components of Eurex Clearing AG.
- Ensuring the integrity of individual members' pledged collateral.

CMs will be responsible for monitoring the risk exposures of their NCMs. The CCP will provide daily reports containing the evaluation of the relevant NCM risk positions to CMs to support the monitoring of NCM risk exposure. CMs will pass on the resulting required margin as minimum margin to their NCMs.

3.4.2 Overview

The CCP will use the risk management system of Eurex Clearing AG and the existing infrastructure as far as possible.

The risk management consists of the following components:

1. Calculation of margin requirements,
2. Valuation of collateral,
3. Checking for the margin coverage and
4. Margin call / cash withdrawal.

Analogous to the current process at Eurex Clearing AG, an additional clearing fund will be utilized.

Eurex Clearing AG will conduct intra-day surveillance of risk exposure to detect abnormal exposure run-ups via the risk management system of the CCP.

The components of risk management are fully integrated as illustrated in the following figure:

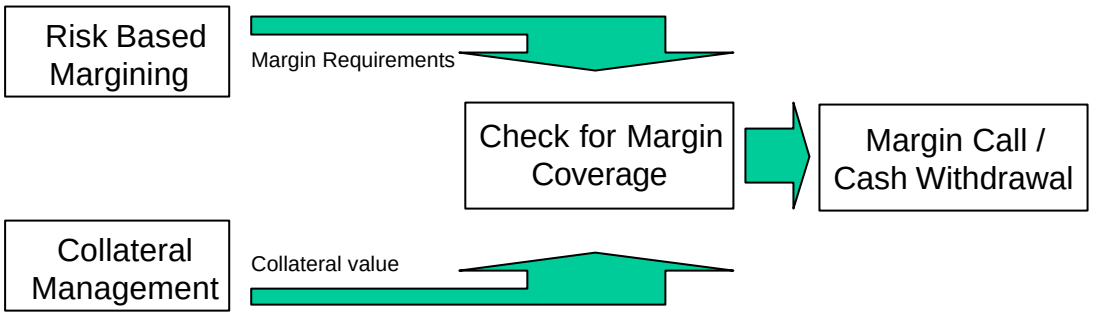


Figure 2: Overview of the Core Risk Management Components

This is the same structure as in the existing system used for derivatives. Further details regarding the process flow and the functionality are described in the following chapters.

3.4.3 Components of Risk Management

The general margin calculation approach will consist of two steps. The first step is the mark-to-market principle: At the end of day, the current value of the equity will be determined. This value is called current liquidating value (CLV). This step is essential to avoid the cumulating of loss and therefore necessary for risk reduction by the clearinghouse. The calculated CLV as well as the open cash positions will be reduced by an appropriate market discounting factor.

The second step is to calculate a so-called additional margin (AM). This component will be calculated to cover the predictable risk of an adverse overnight movement in the security. This general approach is already implemented for Eurex derivatives, Eurex Bonds and Repos.

To follow this approach, the following steps will be performed for all pending trades:

- Firstly, based on the open positions resulting from contractual netting, the actual risk of a CM/NCM per valuation day for the Eurex Clearing AG will be calculated. The current value of all positions will be determined using market prices. After discounting with an appropriate discounting factor, this market value is referred to as the current liquidating value (CLV) of a position. The sum of the CLVs of the equity and (also discounted) cash positions will result in the current liquidating margin (CLM).
- Secondly, requirement of additional margin covers the risk that future market movements could increase the member's losses. The additional margin will be determined to cover worst case losses within a certain probability interval. The calculation basis is the variation of the market value of the equity, which depends on the margin parameters (based on historical volatility).

Correlation effects between securities can be considered within the calculation. This will be achieved by the use of margin groups and margin classes, as already applied for Eurex margining.

The sum of the calculated margin required for CCP relevant trades and margin for derivatives positions at Eurex will result in one total margin requirement, which must be covered by the evaluated collateral. Valid collateral can be cash as well as securities accepted by the clearinghouse (analogous to the current processing of Eurex Clearing AG).

A description of collateral management and evaluation can be found in section 3.4.5 Collateral Coverage.

3.4.4 Fundamentals of Risk Based Margining Calculation

A risk based margining concept will be used as basis for the CCP. The already existing risk based margining system of the Eurex Clearing AG will be adapted to support the requirements of the CCP with respect to equity cash market trades. The following figure shows the general process flow of the Eurex Clearing AG risk based margining:

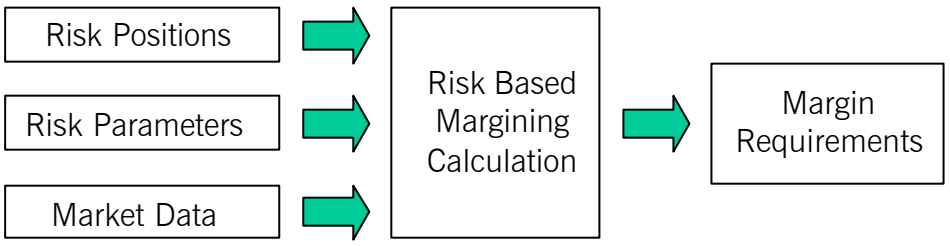


Figure 3: Process Flow of the Risk Based Margining

Risk Positions

The member's respective risk positions are comprised of trade information generated by the trading locations or from corporate action processing. The latter positions will either be created by the CCP[5] or existing positions will be adjusted according to the type of corporate action applied[6].

In case of a successful settlement, the corresponding risk position will be deleted within the CCP and therefore excluded from further consideration in risk management.

The determination of risk positions will be performed in multiple steps:

1. The trading location will deliver all pending trades of the day on an intra-day as well as day-end basis.
2. Information on pending deliveries from previous days is necessary. This information will be available from the CCP.
3. Additional or adjusted positions resulting from corporate actions will be taken into consideration.
4. Net risk positions will be created by accumulating all pending trades per member, security, account type (agent or proprietary) as well as settlement day. The result will be a net risk position either on the short or on the long side.

[5] for corporate action events, which lead to additional deliveries
[6] for corporate action events, which lead to a change in the number of securities or to an exchange of securities

5. Trades marked for gross processing will be accumulated separately on the short and on the long side. A short gross risk position and a long gross risk position will be determined.
6. The net risk position will be added to the corresponding long or short gross risk position (refer to Figure 4: Determining the Security's Risk Positions). The short or long risk position, which results in a higher margin requirement (accumulated per margin class over all settlement days), will then be used as the overall risk position for further processing and reporting.

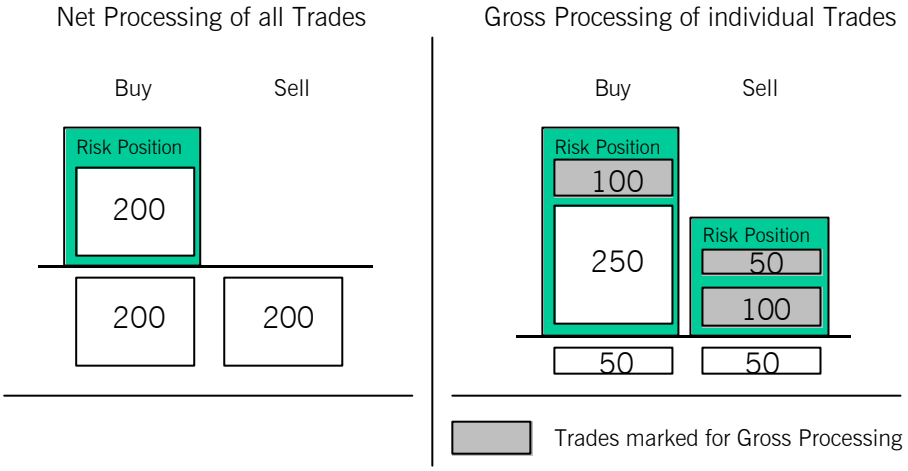


Figure 4: Determining the Security's Risk Positions

Risk Parameters

The (historical) volatility of an equity is the essential parameter used in the calculation of the additional margin. It is used to determine the margin interval.

Margin parameters are updated and sent out daily.

Market Data

End-of-day market details will be necessary for the margin calculation of CCP equities as well as for collateral evaluation. On the basis of market information, Eurex Clearing AG determines adequate settlement prices.

All risk parameters and settlement prices are recorded and provided to the members as reports and/or raw data files.

3.4.5 Collateral Coverage

The functionality and infrastructure to cover collateral (during intra-day and at the end of day) is identical to the already established process at the Eurex Clearing AG, i.e. the same collateral type will be accepted.

Different haircuts are imposed, depending on the form of collateral (securities and cash).

A CM's collateral is kept completely separate from collateral supplied by other CMs and from the clearing fund.

If the risk position of a member decreases, pledged collateral can be reduced on the following day.

The CM retains beneficial ownership of the collateral and receives the associated benefits (e.g., dividend or interest payments) while it is held in favor of the Eurex Clearing AG.

CMs must have a collateral account at CBF or SIS (SegaInterSettle) to process the pledging and withdrawal of collateral in favor of the Eurex Clearing AG.

For margin calls, a cash account at LZB will be used (for Swiss CMs, an SNB - Schweizerische Nationalbank - account will be used). The Eurex Clearing AG disposes of a direct debit facility on the cash accounts ("Einzugsermächtigung"). Margin call processing will be performed using the existing Eurex functionality.

3.4.6 Clearing Fund

The concept of the clearing fund corresponds to the currently established concept of the Eurex Clearing AG.

A detailed description is available in the document "Clearing Conditions for Eurex Clearing AG".

3.5 Delivery Process

3.5.1 General Approach

The contractual netting process will calculate a net obligation with a cash and a securities part. An offsetting block (of buy and sell trades with identical quantity) as well as a surplus (resulting from the balance on the buy or sell side) will be created. The automatic generation of the delivery versus payment instruction for the surplus and the cash booking for the offsetting block takes place during settlement netting.

During settlement netting, cash bookings will be accumulated per LZB account. Delivery versus payment instructions will be netted according to the specifications of the settlement institution (accumulation of agent and proprietary trades or aggregation across all trading members).

The resulting net view and information about single trades will be provided in parallel, in order to enable the disposition of individual trades in gross delivery management.

Thus, a distinction between trades and net delivery instructions is required:

- Trades are the basis of the internal booking and accounting of members. Trades result from executions of an order on the respective trading platform. If aggregation on order level (trading platform dependant) is selected, a trade consists of all partial executions of an order. If aggregation on order level is not selected, a trade corresponds to each partial execution of an order. Gross delivery management is provided for the settlement institutions as a centralized service in order to process the delivery of trades. The status of these trades will be available for settlement institutions and their respective connected members online and transferred via reports and raw data files.

- Net delivery instructions will be forwarded as delivery versus payment instructions to CBF for settlement. The relation between trades and net delivery instructions will be regularly reported to the settlement institutions via the respective reports.

3.5.2 Process Overview

The following provides a high-level generic process description. Details are described in the subsequent chapters. All reports given below are described in detail in chapter 3.5.3 Key Reports in Gross Delivery Management.

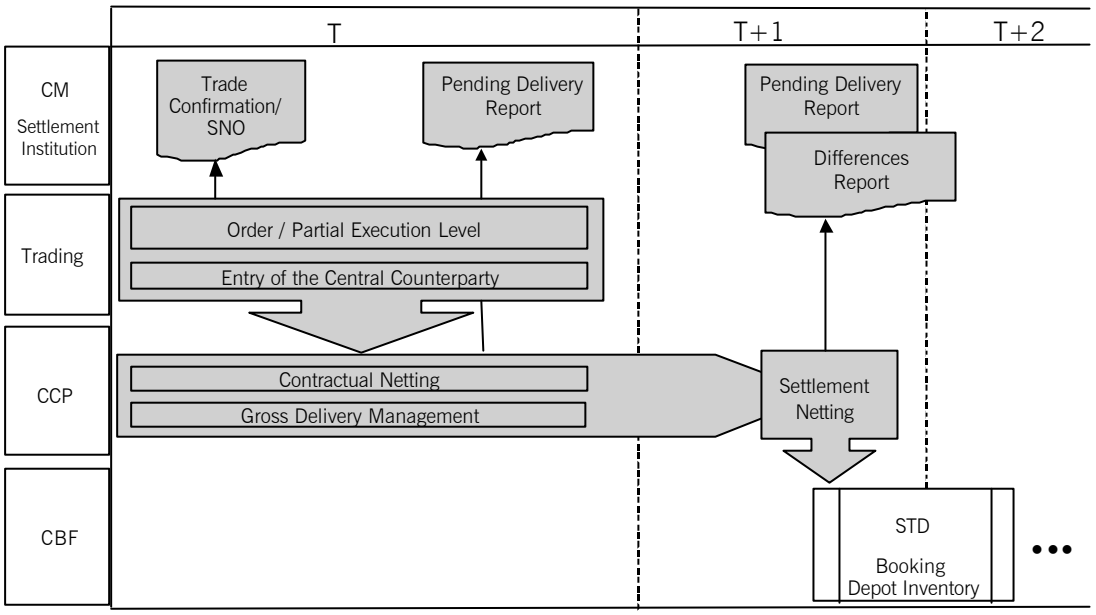


Figure 5: Process Flow on T and T+1

Trading Day T

After the execution of a trade, contract notes / trade confirmations are generated by the respective trading platform. In case aggregation on order level is chosen (trading platform dependent) update trade confirmations / trading contract notes are generated for each partial execution of an order. Order contract notes are generated for the results of the aggregation. Order contract notes document the positions that are maintained in gross delivery management. If no aggregation on order level is selected, the gross delivery management is performed on the basis of trades, which are documented by trade confirmations / trading contract notes.

The CCP becomes the counterparty for each trade at the time of trade execution. The legal obligation generated by the individual trade becomes part of the net obligation and is netted together with previous net obligations in relevant pending trades. The relevant pending trades are trades with the same instrument, settlement account, trading member and account type (agent or proprietary)[7]. After

[7] Optionally, the CM (if necessary, on agreement with a settlement institution) can select an aggregation of agent and proprietary trades as well as the aggregation of all trading members.

transmission to the CCP, trades are available for gross delivery management where inquiries and dispositions can be made. Furthermore, they are considered in intra-day risk management.

In gross delivery management, trades can be marked for gross processing, indicating that the trade will be excluded from contractual netting and thus is not considered during settlement netting. For these trades, risk management will be performed on a gross basis. During the end-of-day processing, the CCP provides the pending delivery report and raw data on a gross basis to provide information for gross delivery management to the settlement institutions.

Pre-Settlement Day (T+1)

During the day, trades can be maintained continuously. During the end-of-day processing, the CCP performs settlement netting and creates net delivery instructions (for the surplus) as well as cash bookings (for the offsetting block). The creation of cash bookings is performed depending on the selected option for support of the member-internal cash accounting (a detailed description of settlement netting and the options for support of the member-internal cash accounting is given in chapter 3.5.5 Settlement Netting). For trades marked for gross processing, gross delivery instructions are created. Net and gross delivery instructions are then forwarded to CBF for settlement. Cash obligations for the offsetting block are accumulated per CM and LZB account and sent to the LZB[8]. In order to support the participants' cash disposition, a forecast on the expected cash bookings is available in gross delivery management.

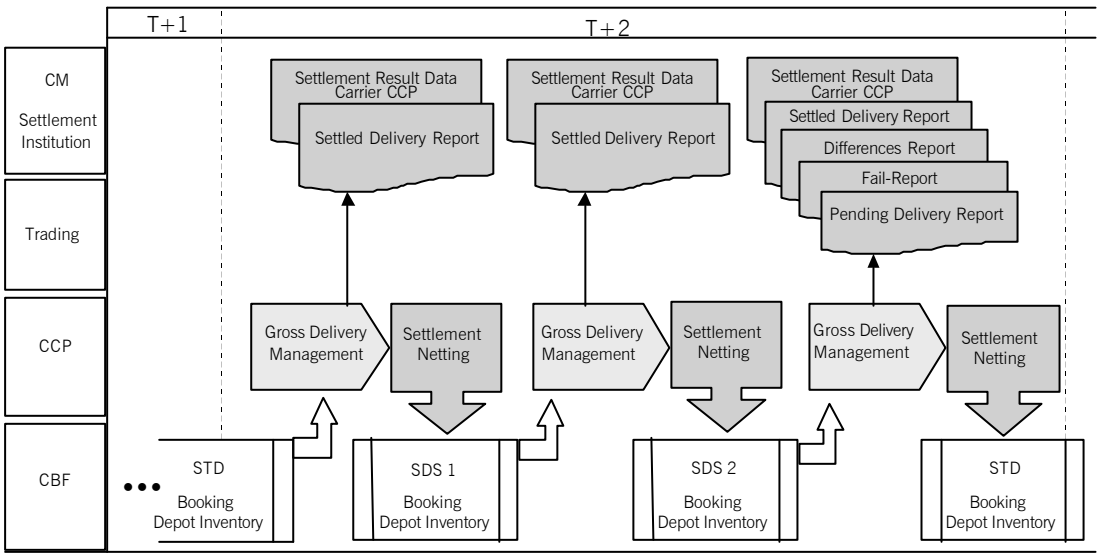


Figure 6: Process Flow on T+2

Settlement Day (T+2)

The settlement cycle at CBF and the cash booking at LZB is performed.

[8] If a CM also acts as a settlement participant the cash booking (per LZB account) resulting from a margin call can be combined with the cash booking resulting from a cash obligations generated during settlement netting.

Settled trades are identified by the CCP and reported (via the settled delivery report and the settlement result data carrier CCP) to the settlement institution and their connected members.

Non-settled net as well as gross delivery instructions at CBF will be processed by the CCP and cancelled at the end of the day at CBF. The underlying trades will still be available in gross delivery management and, where applicable, are included in the settlement netting for the next standard settlement cycle (STD). Remaining trades are provided to the settlement institutions and CMs through gross delivery management via the late delivery report and the pending delivery report (also in raw data format), depending on whether these trades are overdue or not.

After the cash bookings have been performed, blocked trades within the offsetting block are regarded as settled on level CCP – CM. However, these blocked trades are not fulfilled on the level CM - customer and are therefore considered as pending on this level. Therefore, for blocked trades in the offsetting block, cash differences may occur between the two levels CCP – CM and CM – customer. In case of differences between the two levels CCP – CM and CM – customer[9], the settlement institutions and CMs receive additional information in a differences report as well as in raw data format. This allows member-internal handling of these differences.

The gross delivery management functionality is available intra-day (also on the fulfillment day) between the settlement cycles of CBF (Standard Settlement – STD, Same Day Settlement 1 – SDS1, Same Day Settlement 2 – SDS2) for non-settled trades.

3.5.3 Key Reports in Gross Delivery Management

The interfaces used and the reports outlined below (according to the current discussion status) are adapted to the currently used infrastructure (e.g. CBF). These reports document the processing of trades on the levels CCP – CM as well as CM – customer.

- Settled Delivery Report ("Ist-Lieferreport")
  The settled delivery report contains trades that were settled on CCP – CM level. The settlement status on CM – customer level is also indicated in the report. The report contains information for full as well as for partial deliveries. The creation of this report will take place daily after each settlement cycle at CBF (STD, SDS1, SDS2).
- Settlement Result Data Carrier CCP ("Regulierungsdatenträger")
  The settlement result data carrier CCP will contain all fully or partially settled trades on the level CM – customer. Its generation will take place after each settlement cycle of CBF (STD, SDS1 and SDS2). The format will correspond to the CBF settlement result data carrier.
- Pending Delivery Report ("Soll-Lieferreport")
  The pending delivery report contains trades, which are pending either on CCP - CM level or on CM – customer level. The pending delivery report will contain all relevant information, which is currently given in the pending delivery report of CBF. This report will be generated daily after the last settlement cycle at CBF (SDS2).

[9] The CCP offers two alternatives for supporting the member-internal cash accounting. The present alternative where blocked trades within the offsetting block are regarded as settled on level CCP – CM whereas they are still pending on level CM – customer is referred to as "Alternative 1 – Using a Differences Account". Both alternatives are described in detail in this document.

- Late Delivery Report ("Fail-Report")
  The late delivery report contains trades that could not be settled (fully) either on the level CCP – CM or on level CM – customer. This report will be generated for overdue trades after the last settlement cycle at CBF (SDS2).
- Differences Report ("Differenzenreport")
  For blocked trades within the offsetting block, the settlement on level CCP – CM (contained in the settled delivery report) and the settlement on the level CM – customer (contained in the settlement result data carrier CCP) may differ. These differences will be documented per value date in the differences report.

As a result of settlement netting, the individual trades of market participant's will not be represented on the accounts at CBF. The reconciliation is possible via the provided reports.

3.5.4 Gross Processing

Trades marked for gross processing will not be considered in the settlement netting process. For such trades, the delivery process will be performed on a gross basis, i.e. the CCP will generate a delivery instruction for every trade and transfer the instruction to CBF for settlement.

In gross processing, blocked delivery instructions will be generated for blocked trades marked for gross processing. These trades will be transferred to CBF and can be released in the CBF system by the settlement institution.

3.5.5 Settlement Netting

Settlement netting for on-exchange trades will be performed for the first time on the evening of T+1 so that the generated delivery instructions will be available for settlement through CBF in the standard settlement cycle (STD). If a delivery instruction is not fulfilled, the instructions will be cancelled by the CCP intra-day or after SDS2 at the latest. The associated trades will continue to be subject to settlement netting unless they were marked for gross processing.

The settlement netting process takes place within the CCP for trades, which are not explicitly marked for gross processing. Relevant trades are trades, which have reached the delivery date and have not been settled yet, i.e. due and overdue trades. For processing of corporate actions, settlement netting will be performed for adjusted and / or newly created obligations.

Settlement netting will be performed per CM, instrument, settlement account at CBF and trading member (separately for proprietary and agent trades). Optionally, the CM can - in agreement with the settlement institution, accumulate its proprietary and agent trades or the trades of all trading members. As a result of this process, an offsetting block (of buy and sell trades with identical quantity) and a surplus (representing the balance on the buy or sell side) will be generated. Thus, the result of settlement netting will reflect the legal process of contractual netting (also refer to Figure 7: Creation of an Offsetting Block and Surplus during Settlement Netting).

The allocation of single trades to the surplus and the offsetting block will be performed according to the following principle:

- Blocked trades will be assigned to the offsetting block, where possible.

- (Manually and automatically) linked trades will be assigned to the offsetting block, where possible.
- Previously executed trades are settled with priority.

Surplus and offsetting block will be settled according to the release status ("released" / "blocked") as follows:

- By accumulating all trades in the surplus, one net delivery instruction will be generated for the surplus and transferred to CBF. Only released trades will be included in the generation of this delivery instruction. If a delivery instruction exceeds a specified maximum size, it will be subject to shaping, i.e. the delivery instruction will be split into several delivery instructions with a specific quantity. The settlement of the net delivery instruction(s) will be processed as delivery versus payment transaction(s) by CBF.
- The cash amount resulting from price differences of the buy and sell trades contained in the offsetting block is settled via the LZB.

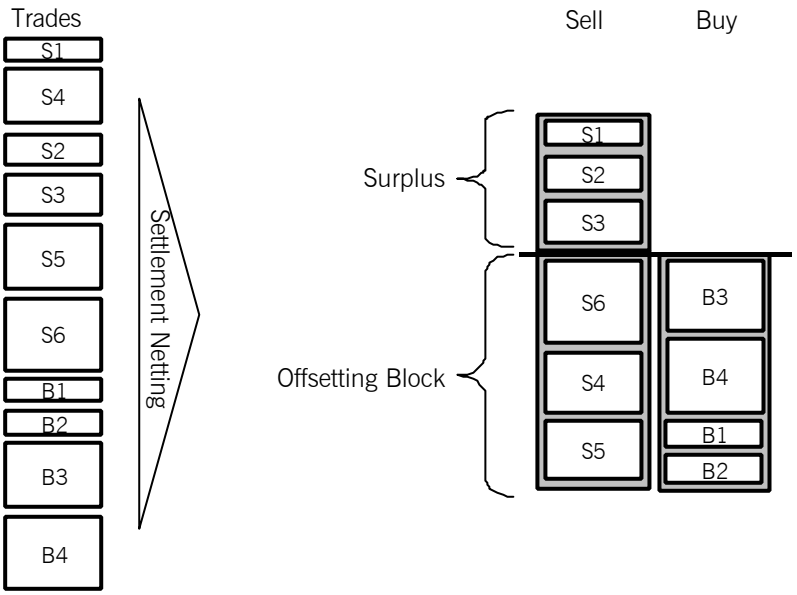


Figure 7: Creation of an Offsetting Block and Surplus during Settlement Netting

Two alternatives will be offered to support the member-internal cash accounting. They have to be taken into account for the settlement of the cash amount resulting from price differences of buy and sell trades in the offsetting block:

Alternative 1 – Using a Differences Account

For blocked sell and corresponding buy trades in the offsetting block, cash settlement will be processed on CCP – CM level at the value date. Blocked trades in the offsetting block are regarded as settled on the level CCP – CM, but considered pending on CM – customer level until their release in gross delivery management (refer to Figure 8: Alternative 1 - Using a Differences Account). This difference can be processed internally by the settlement institution using a differences account. The gross delivery management will provide the required information for reconciliation of this account in a differences report as well as in raw data format.

The settled delivery report will document the settlement on the CCP – CM level. The settlement result data carrier CCP can be used for bookings on the CM – customer level.

A fail against the CCP with the consequence of fines, interest charge on late delivery, compensation, etc. cannot occur in the offsetting block, but only in the actual surplus.

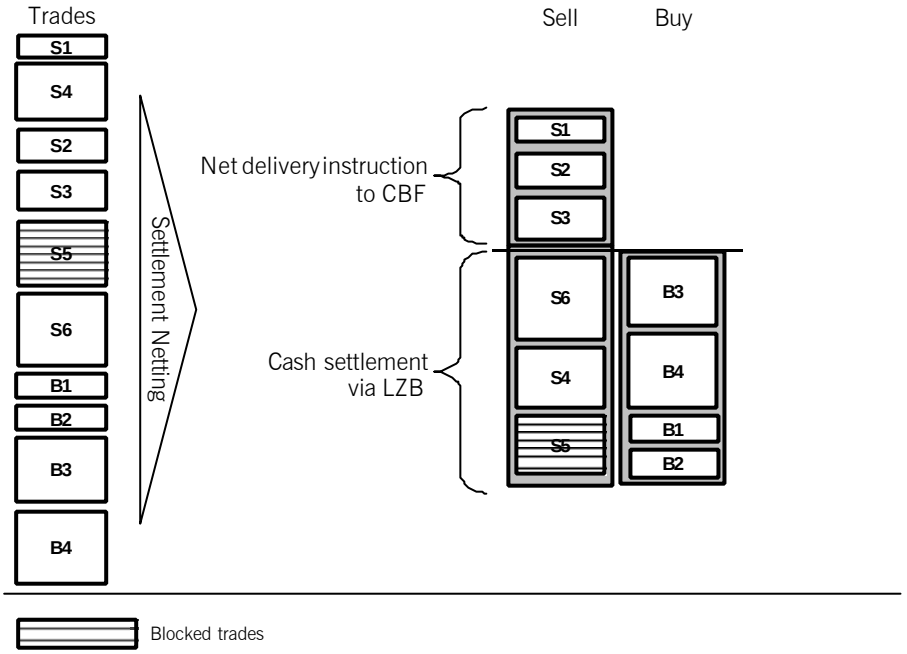


Figure 8: Alternative 1 - Using a Differences Account

Alternative 2 – Cash Deferral

To support cash accounting, cash settlement for blocked sell trades and corresponding buy trades in the offsetting block on CCP – CM level will be performed only upon release of such trades.

Blocked sell trades and corresponding buy trades in the offsetting block will be regarded as pending on CCP – CM level and pending on CM – customer level in gross delivery management (refer to Figure 9: Alternative 2 – Cash Deferral).

The CM must pay the incurred costs and expenses and has to cover additional risks by pledging collateral, if necessary. After a settlement institution has released a specific trade, settlement can be performed in the next cash settlement cycle on the same day.

Thus, cash differences (as described in the first alternative) between the CCP – CM and CM – customer levels cannot occur. For settlement institutions, it will not be necessary to enhance internal systems in order to manage the cash differences (as would be required when using the first alternative). Blocked trades in the offsetting block will therefore be processed in the same way as those contained in the surplus, which means that these trades will be regarded as fails.

The CM must pledge the appropriate collateral and late delivery fines and additional costs and charges might be charged where applicable. Furthermore, Eurex Clearing AG charges all costs incurred due to the provision of these services to the CMs according to a cost-by-cause principle.

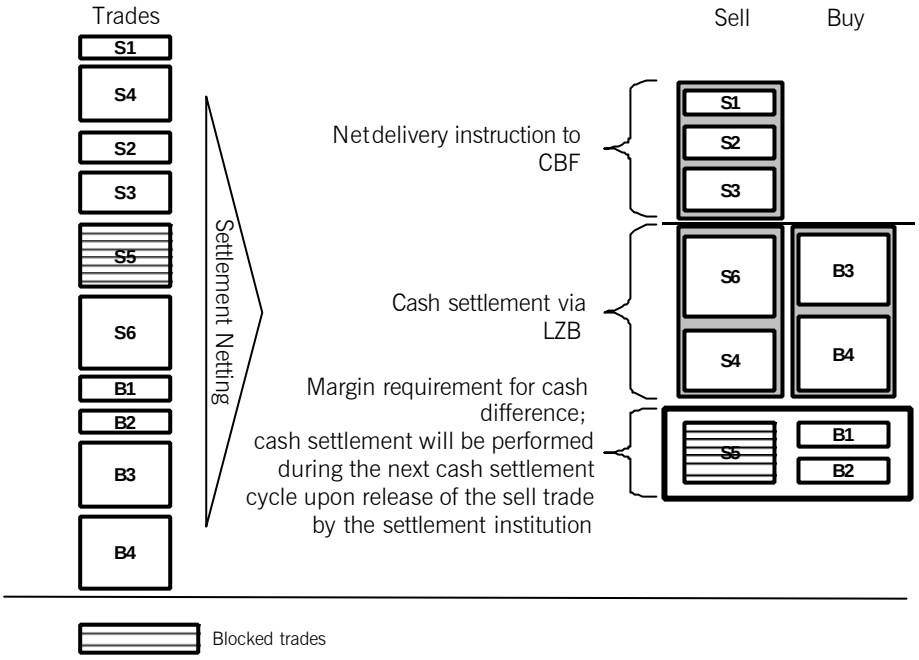


Figure 9: Alternative 2 – Cash Deferral

3.5.6 Late Deliveries

In case of late deliveries, the following procedure will be applied:

If due deliveries are not settled on fulfillment day T+2, the associated CM has to pay fines and interest.

If the overdue delivery is not settled by a specified date, the CCP can initiate buy-in auctions.

The Eurex Clearing AG will perform a final cash settlement 30 business days after the intended fulfillment day if the attempted buy-in auctions are not successful.

In addition to fines and interest, during the entire process, the defaulting CM will also be charged all costs incurred by the buy-in procedure.

The introduction of late delivery fines and interest will take place in three phases, in which non-fulfilled buy trades will be considered accordingly. The parameters defined for this purpose will be revised two months after introduction of the CCP reflecting the experiences made up until that point in time.

3.5.7 Default of a Member

The general approach is the same as the current approach of the Eurex Clearing AG.

A detailed description of the procedure is documented in the "Clearing Conditions for Eurex Clearing AG" document.

3.5.8 Settlement Lending / Borrowing

Within the CCP concept, optional settlement borrowing will be taken into consideration by obliging the defaulting CM or settlement institution to borrow securities. The functionality, which is necessary to ensure an effective lending / borrowing process will be provided by CBF. One of the core requirements is to avoid excess borrowing, which is possible during the current process.

The target is to increase the settlement efficiency in a cost-effective manner and thus support participants in realizing benefits. The planned solution of an optional automatic settlement lending / borrowing is accommodated by incorporating into regulations within Eurex Clearing AG that a CM / settlement institution needs to have the necessary infrastructure to participate in settlement borrowing.

4 Special Features of connected Trading Platforms

4.1 XONTRO Floor Trading System

4.1.1 Introduction

The integration of floor trades from XONTRO into the scope of the CCP for Equities will require the capability to process floor specific information (e.g. price differences, brokers' open transactions / "Aufgaben") for CCP relevant trades.

4.1.2 Price Differences

Orders can be executed via one or more brokers (which corresponds to a trading member within the CCP functionality) on the floor. The seller can therefore receive a different price for specific trades than paid by the buyer. The difference in the prices and the respective difference in the settlement amounts result in a profit or loss for the involved brokers. These differences are referred to as price differences. With the introduction of the CCP (and associated split into two trades), price differences will only occur at the Eurex Clearing AG.

The CCP will receive information about the price differences to be settled via an interface to the floor system XONTRO. These amounts will be accumulated and corresponding risk positions will be created.

Settlement of price differences, which is currently performed by the "Lombardkasse", will take place via the corresponding settlement institution of each broker involved, whereas the liability remains with the broker's CM. The processing continues to be performed by XONTRO and the settlement will take place via CBF respectively LZB.

CMs as well as trading members will be informed about the required current liquidating margin by means of reports and raw data provided by the CCP.

4.1.3 Broker's Open Transactions ("Aufgaben")

Brokers' open transactions will continue to exist between trading members and brokers. The CCP will only become the counterparty when the open transaction is closed against a bank or (for proprietary trading) against the CM of the broker. According to the rules and regulations, broker's open buy transactions ("Kaufaufgaben") have to be closed by the end of the next business day, broker's open sell transactions ("Verkaufsaufgaben") after the two next business days. If it is not closed by then, the open transaction will automatically be closed against the CM of the broker and be marked as a proprietary trade of the broker.

4.1.4 Trade Reversal

With the introduction of the CCP, the process of intra-day reversals remains unchanged.

Trade reversals for floor trades will also be possible on the business day after the trade was executed (T+1). In case of such reversals, the trades will be removed from gross delivery management.

In case corporate action processing was already performed for a trade reversed on T+1, the result of the corporate action processing will be taken into account when processing the trade reversal. For

income corporate action events, the amount will automatically be corrected by means of a corresponding cash reversal transaction. If new positions have been generated due to non-income events (e.g. for subscription rights), these positions as well as the underlying trades will be canceled.

4.2 Aggregation on Order Level

4.2.1 Introduction

The introduction of the Central Counterparty will support the aggregation of partial executions of one order (aggregation on order level, currently planned for Xetra trades). This will provide the benefit of reducing the number of trades in gross delivery management.

In order to minimize the impact on the participants' back office systems, aggregation on order level will be introduced as an optional feature. The members can choose whether or not to utilize this functionality.

4.2.2 Functional Description

Aggregation on order level is selected by the member on the trading platform by a standing instruction.

In principle, the following applies: Information about trades continues to be provided via trade confirmations and contract notes. Contract notes will be generated for executions (trading contract notes / "Handelsschlussnoten") as well as for aggregated trades (order contract notes / "Order-schlussnoten").

The relevant impact of aggregation on order level is briefly described below.

In case a trading member has selected aggregation on order level, all partial executions of an order on one trading day receive the same trade number.

- In case an order is executed against multiple orders on the opposite side of the book at the same time and with the same execution price (e.g., during an auction on the trading platform Xetra), an execution confirmation and a trade confirmation / trading contract note will be created.
- In case an order is partially executed against multiple orders on the opposite side of the book at one execution price at the same time, one execution confirmation and one trade confirmation / trading contract note will be generated, including among other things the execution price and the settlement amount. The remaining order volume will be entered in the order book. For subsequent partial executions, an update trade confirmation will be generated with the same trade number and a unique suffix as well as a trading contract note. The update trade confirmation will contain the accumulated volume, the volume-weighted average price of all partial executions of the given order performed earlier on the same trading day, and the total settlement amount of all partial executions. It will also contain the price and the volume of the most recent partial execution.
- In case an order is partially executed against multiple orders on the opposite side of the book at different execution prices, one execution confirmation per partial execution will be generated. For the first partial execution, a trade confirmation / trading contract note will be generated. Subsequent partial executions at different execution prices will each result in an update trade

confirmation with the same trade number and unique suffix as well as a order contract note. The update trade confirmations will contain the accumulated volume, the volume-weighted average price of all partial executions of the given order performed earlier on the same trading day, and the total settlement amount of all partial executions.

The following table gives an overview of the information provided in case of aggregation on order level:

	Execution Confirmation	Trade Confirmation	(Update) Trade Confirmation	Trade Number	Trading Contract Note	Order Contract Note (refer to no. 1)
Order fully executed; one price	One	One	None	One	One	One
Order fully executed, more than one price	Per price	For the first price	For all further prices	One; with different suffixes for each partial execution	Per price	One
Order partially executed	For each partial execution	For the first partial execution	For all further partial execution	One; with different suffixes for each partial execution	For each partial execution	One

(1) Order contract notes contain settlement information about trades that are subject to aggregation on order level.

5 Regulatory Reporting

With the introduction of the Central Counterparty for Equities at the Frankfurt Stock Exchange, Eurex Clearing AG will become the counterparty for each relevant transaction in German equities held in collective safe custody, traded on Xetra and Euro-denominated. This anonymization of trading will have an impact on the reporting requirements according to §9 WpHG. For on-exchange trades with the CCP as the counterparty, trading participants must in future report the CCP as counterparty.

To minimize the adjustment effort, market participants will continue to receive the necessary information from the systems of Deutsche Börse AG after the introduction of the Central Counterparty. This information can be used to generate the relevant reports regarding their equity trades. For each partial execution in CCP-relevant floor trades (XONTRO), each trading contract note ("Handelschlussnote") will show the CCP as counterparty. Similarly, in addition to a trade confirmation, all data regarding Xetra trades necessary for regulatory reporting will be provided in the form of trading contract notes for each partial execution.

These CCP processes will ensure that market participants can comply with §9 WpHG by reporting on a single trade basis over the existing interfaces (trade confirmations and trading contract notes). Likewise, this is applicable to trades subject to aggregation on order level (trading platform dependent) for which reporting per partial execution must be performed.

With the introduction of the first release of the Central Counterparty, all relevant trades will be executed against the CCP, a domestic counterparty. Therefore, according to the German Foreign Trade Regulation, participants do not need to report on CCP trades in domestic securities. Reporting for such trades will be performed by the CCP.