X-pand into the Future

e u r e x *information*

Date: Frankfurt, 16 March, 2001
Recipients: All Eurex Clearing members and vendors
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Further Information on the Introduction of an Equity Central Counterparty

Related Eurex Information: Information of 08.02.01, 21.02.01, 08.03.01

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Content may be most important for:	**Attachments:**
➲ Front Office / Trading ➲ Middle + Back Office ➲ Auditing / Security Administration	1. CCP Information 004/01(English, Deutsch) 2. CCP Special (English, Deutsch)

Please find attached a copy of the Equity Central Counterparty information (04/01) sent to Xetra members yesterday.

Attached to the information were English and German language versions of the Special publication 'Central Counterparty – CCP Overview' which summarizes the most important features of the Equity Central Counterparty.

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CCP Information 04/01

Deutsche Börse

To the FWB Members, Xetra® Members and Vendors

Recipients: General, Trading Contacts, Back Office, System Administrators, Project Coordinators

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Central Counterparty – CCP March 15, 2001
Special regarding the Equity Central Counterparty

Dear Sir or Madam,

We are glad to provide you today with further, up-to-date information associated with the introduction of the Central Counterparty.

Enclosed with this letter, we are sending you a Special 'Central Counterparty – CCP Overview', which summarizes the most important features of the Equity Central Counterparty in a clearly structured way:

- Overview Central Counterparty
- Member Status
- Functionalities of the CCP
- Advantages for Participants arising from the CCP.

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Yours faithfully
On behalf of the Management

Enrico Isceri Jens Hachmeister

Enclosure

Special

Deutsche Börse

15.03.2001

Central Counterparty – CCP

Central Counterparty: Overview

With the introduction of the Central Counterparty (CCP), a service provided by Eurex Clearing AG, the current risk management concept for the cash market of Frankfurter Wertpapierbörse (FWB) for Xetra and FWB Floor trading will be further optimized and significantly expanded. This optimization encompasses the following aspects:

- takeover of the counterparty risk
- establishment of state-of-the-art margining
- Cross-margin effects with existing derivatives positions

With its introduction, the CCP automatically becomes a party to each trade. The identity of the exchange participant on the other side is not disclosed. As a result, the existing pre-trade anonymity is extended to the following clearing and settlement processes.

The CCP represents an extension of the existing functionalities and services of Eurex Clearing AG for the cash market. Market participants will thus benefit from the following services:

- Calculation of the overall risk and the necessary collateral exposure (margin) following the accepted method of Eurex Clearing AG
- Efficient measures in the event of late deliveries, which lead to an increased delivery discipline
- Clearly defined regulations in case of member default
- Optional reduction of delivery instructions

Aside from an improved performance of Deutsche Börse platforms, the CCP contributes to an increase in market efficiency and the reduction of transaction costs.

In a first step (the introduction is planned for the third quarter of 2001), equities at Frankfurter Wertpapierbörse (FWB) will be settled via the CCP, provided they are listed on Xetra and subject to CSC (certified security custody).

In order to keep both the investment cost as well as the necessary adjustments as small as possible for the market participants, the CCP will be based on the existing infrastructure (Xetra, Eurex, Xontro, Clearstream). The implementation effort will increase as the number of delivery instructions decreases.

Member Status

After the introduction of the CCP, there will be different clearing status:

- *Clearing-Member (CM)*: A General Clearing Member (GCM) may clear own trades and agent trades as well as trades of Xetra Members without a clearing license. A Direct Clearing Member (DCM) is only entitled to clear own trades, agent trades and the trades of 100% associated companies. For admission as a CM, specific requirements regarding the liable equity capital need to be met.
- *Non-Clearing-Member (NCM):* An NCM is an exchange participant, which enters own trades and agent trades, but does not take part in clearing or settlement directly with the CCP. For this purpose, the respective Clearing Member, with which the NCM entered into a clearing arrangement, is used.

Functionalities of the CCP

Trade Management

- Give-up/Take-up
  This functionality enables Members to allocate trading and clearing of executed trades among different Exchange Members. Trades must be designated (given up) and accepted (taken up) before the end of the post-trading phase on the current exchange trading day. The give up/take up functionality will be available for both Clearing Members and Non-Clearing Members.

- Reduction of Delivery Instructions
  Through the reduction of delivery instructions, associated transaction costs decrease.

  This reduction may be carried out on different levels:

  - *Price*:

  If an order is fully executed at one price on Xetra, only one delivery instruction is generated.

  - *Order*:

  For each order, all partial executions on one exchange trading day are assigned only one trade number, and only one delivery instruction is generated.

  - *Account*:

  During the trading day, orders are executed following the order level execution rules. In the end-of-day processing, trades of the buy and sell sides are accumulated. Subsequently, the buy and sell sides are netted and one delivery instruction, separated by own trades and agent trades, per NCM, instrument and value is generated.

Risk Management

The aim of the risk management is to provide protection for participants against default of other market participants. Collateral deposited by the participants covers the predictable loss arising from member default on any given day. Additional collateral will be calculated and deposited to cover unpredictable risks.

The following components of the CCP support risk management:

- Risk-Based Margining
- Collateral Management
- Check of the Margin Coverage

Delivery Management / Member Default

In the event of the default of a Clearing Member (CM), Eurex Clearing AG will use the deposited collateral to settle positions in the following order:

- Open positions of accounts of the defaulting CM will be netted to a single net position. Subsequently, the net position will be settled by Eurex Clearing AG or another exchange participant selected by Eurex Clearing AG.

- Collateral deposited by the defaulting CM including its contribution to the Clearing Fund will be used.
- If the turnover arising from the use of collateral is higher than the overall liabilities, the surplus will be refunded.
- Should the turnover arising from the use of collateral and the contribution to the clearing fund not be sufficient to fulfill the liabilities of the CM, Eurex Clearing AG will provide own funds.

Advantages for Participants arising from the CCP

- Risk Management
  Through the take-over of the counterparty risk, the risk run by the participants is reduced. In addition, the CCP provides the benefit of a lower capital commitment, since less supporting regulatory and economic capital is needed.

- Reduction of Delivery Instructions
  The possibility of curtailing the number of delivery instructions significantly improves the back-office efficiency of the market participants. The associated benefit increases with the degree of realized reductions.

- Further Advantages
  Post-trade anonymity allows to sustainably increase the market efficiency. In addition, an increased delivery discipline can be expected from the introduction of stringent procedures in case of late deliveries.

Contact

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