X-pand into the Future

e u r e x *circular 065/00*

Date: Frankfurt, 04 August, 2000
Recipients: All Eurex members and vendors
Authorised by: Jürg Spillmann

⚠ **Action Required** ⚠ **High Priority**

1. **Distribution of Production Update Kit for Eurex Release 4.0**
2. **Publication of Updated IC Release 2000 Member Brochure**

Related Eurex Circulars: 043/00 (for Brochure)

Contact: Technical Help-desk: Tel. +49 (0)69-2101-1200 (Topic 1)
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Content may be most important for:

- Front Office / Trading
- Middle + Back Office
- IT / System Administration
- Auditing / Security Administration

Attachments:
IC Release 2000 Member Brochure

Summary:

1. Distribution of Production Update Kit for Eurex Release 4.0

On Wednesday August 9, 2000, after the overnight batch, Eurex will distribute a production update kit for Eurex Release 4.0.

System administrators must make sufficient storage space available on their production environment for the transfer, and should ensure that the production environment is connected to the Eurex network on Wednesday evening.

Please install the update kit on front ends by August 14, 2000.

Installation of the Kit is not mandatory, but highly recommended. A GATE update kit for MISS/WS installations will be distributed in addition. If you install the Eurex update Kit, you **must** install the GATE update kit.

2. Publication of Updated IC Release 2000 Member Brochure

An updated version of the Member Brochure describing the extension of Eurex Clearing AG services to be introduced with IC Release 2000 is attached. This version replaces the one issued with Eurex Circular 043/00 which is no longer valid. The brochure has also been published on the public section of our web-site 'www.eurexchange.com' under "market place / downloads / brochures".

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1. Distribution of Production Update Kit for Eurex Release 4.0

On Wednesday August 9, 2000, 0 after the overnight batch, Eurex will distribute a production update kit for Eurex Release 4. In preparation, system administrators must make sufficient storage space available on their production environment and should ensure that the production environment is connected to the Eurex network on Wednesday evening.

Please install the update kit on front ends by August 14, 2000. This update kit optimizes system processes and installation is is not mandatory but nevertheless strongly recommended.
A GATE update kit for MISS/WS installation will be distributed in addition to the Eurex update kit. If you install the Eurex update Kit, you **must** install the GATE update kit.

Target Directories and free storage requirements for file transfer

IBM / AIX (UD):	toff00/data/reports/release	5MB
Compaq / OpenVMS (UD):	toff00$:[toff00.data.reports]	5MB
IBM AIX (MISS):	/usr/lpp/gate/transferdir/release00	10 MB + 10 MB Windows NT
SUN Solaris (MISS):	/opt/gate/transferdir/release00	10 MB + 10 MB Windows NT
Windows NT (MISS):	<ftp-root directory>\release00	10 MB

For User Devices and Satellites, instead of a full update kit, only updated software modules will be delivered (two for AIX and one for OpenVMS). These software modules should be installed as described in the accompanying installation notes (.txt file).

When you install the update it is very important that all MISS/WS in a broadcast environment (including remote workstations) are updated.
Please distribute this circular to your system administrators so that all files which are no longer needed (e.g. software kits, theoretical price files, reports) are deleted from the target directory before the new update software is transmitted. In addition, please make sure that your production environment is connected to the Eurex back end from 20:00 CET on Wednesday, 09 August, 2000. If you have not received the software by Friday, 11 August 2000, please contact our Technical Help-desk on +49 (0)69 2101-1200.

The production update kit for Eurex Release 4.0 contains the following changes among others:

Changes for MISS/WS

Broadcast Streams

The update kit will provide market participants with an improved broadcast process. This will be particularly noticeable to those participants who subscribe to the full order-book depth and inside market for all products, and whose applications were unable to accept all of the broadcast stream data in a timely fashion. No changes in VALUES API-based applications are required on the member side.

Futures Spreads Sorting

The update changes the sorting of futures spreads within the GUI by displaying relevant combinations in ascending order. The current display order for the three expiration months SEP00, DEC00, MAR01 is: SEP00/MAR01, SEP00/DEC00, DEC00/MAR01. After the update, the display order will be: SEP00/DEC00, SEP00/MAR01, DEC00/MAR01.

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Account Handling

The update kit features improved account handling on the Order Entry, Fast Order Entry, and Rapid Order Entry screens. After the entry of a valid account the “Customer”, “Act”, and “ClgMember” fields will update automatically.

X-tract

The Market Supervision Message display in the Clearing GUI (X-tract) will now contain all messages instead of only the last 26.

Inquire Contract

Currently, when using the request “Inquire Contract” for option products the “cntrAsyInd” field may contain a blank instead of an “N”. After the update, as specified in the VALUES documentation, only the values “N” and “Y” will occur.

UD/Satellite Changes

PTCs on AIX

Printing of PTCs (Printed Trade Confirmations) on AIX User Devices can lead to the unnecessary creation of new files and the elongation of file names which have a direct effect on system performance. This is corrected with the new software module.

Own Order Detail Screen UD

The display of Incorrect order amounts displayed on the Own Order Detail screen, after an order has been modified, has been corrected.

2. IC Release 2000 Member Brochure

Attached please find an updated version of the Member Brochure describing the extension of Eurex Clearing AG services to be introduced with IC Release 2000. This version replaces the one issued with Eurex Circular 043/00 which is no longer valid. The brochure has also been published on the public section of our web-site 'www.eurexchange.com' under "market place / downloads / brochures".

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Eurex Clearing AG

Extension of Services

Member Brochure

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Table of Contents

1	**Introduction**	**2**
2	**Vision**	**3**
2.1	**Central Counterparty**	**3**
2.2	**Integrated Risk Management**	**3**
2.3	**Extension across Products and Trading Locations**	**4**
2.4	**Open to Settlement Locations**	**4**
3	**IC Release 2000 Functionality**	**5**
3.1	**Product Coverage**	**5**
3.1.1	Repurchase Agreements	5
3.2	**Functional Description**	**5**
3.2.1	Interfaces to Trading Systems	5
3.2.2	Membership	6
4	**Settlement**	**7**
4.1.1	Repo Coupon Transfers	7
4.1.2	Risk Management	7
4.1.3	Reporting	8
4.2	**Clearing Membership Requirements**	**9**

1 Introduction

Eurex Clearing AG is planning to expand its scope of activities. The introduction of the new Integrated Clearer (IC) functionality is planned in October 2000. Eurex Clearing AG's central counterparty capabilities will be extended to enable it to service bond cash, forward and repurchase agreement transactions ("repos"). In subsequent phases, Eurex Clearing AG's functionality will extend to cover additional markets. Through IC Release 2000, Eurex Clearing AG will be able to offer its members the following benefits :

- Reduced credit risk by positioning Eurex Clearing AG, with its risk management system, as counterparty to all trades.
- For electronic trading platforms, trade anonymity will be extended through the final settlement of transactions.
- Reduced collateral requirements via cross margining between the physical fixed income markets and Eurex.
- Operating efficiencies by consolidating transactions with a single counterparty that offers a single consistent interface and reporting infrastructure and a single transaction margining system.
- Balance sheet netting in repurchase agreements and other markets where this may be relevant and as allowed by the relevant member accounting requirements.

The purpose of this document is to describe the longer term vision for the extended services of Eurex Clearing AG (hereinafter also referred to as "Clearinghouse") and to present the first phase development.

2 Vision

This section provides an overview of the long-term vision for the Clearinghouse, indicating its primary functional elements and the main benefits that will be realized by the market through its introduction.

2.1 Central Counterparty

Eurex Clearing AG will be interposed between the primary counterparties to financial transactions in the market segments and trading locations served by the Clearinghouse. Eurex Clearing AG will be the original counterparty to trades that are concluded on automated trading platforms, and it will become counterparty to trades in OTC markets via a process of validation and registration. The following benefits will be realized through the central counterparty structure.

- Counterparty risk is reduced because each market participant will have the Clearinghouse as its counterparty in place of other market participants, which in most cases will not have the same credit quality as Eurex Clearing AG.
- Trade anonymity can be extended through the settlement process because market participants will settle their trades against the Clearinghouse rather than against the party who they were matched against on trading platforms that offer anonymous trade matching.
- Risk positions are consolidated with the Clearinghouse, allowing for a maximum of margin offset in the risk management process and facilitating collateralization by applying a single collateralization process to a maximum of trading activities.
- Settlement volumes are reduced through order level and multilateral netting performed by the Clearinghouse. Net settlement instructions are calculated by the Clearinghouse and may be inserted into the relevant settlement systems on behalf of the member.
- Balance sheet relief for members can also be achieved through the netting process. In certain business areas and jurisdictions, this benefit can be dramatic and highly valued by members. Repurchase agreements is one market segment that Eurex Clearing AG will target in its first implementation step in order to offer immediate benefits to its members.

2.2 Integrated Risk Management

An integrated risk management process, implemented in a single technical environment, promises member benefits through a reduction of margin requirements achieved with the reliability and advantageous cost structure of the Eurex Clearing AG technical environment.

By consolidating exposures under Eurex Clearing AG as the central counterparty, members receive the maximum benefits arising from the correlation between risk positions and portfolio diversification. A risk based margining system based on value at risk methodologies allows for the maximum benefit to members while maintaining the Clearinghouse's financial soundness at the levels targeted by the risk carrying community.

2.3 Extension across Products and Trading Locations

Eurex Clearing AG intends to serve all markets for which members see potential benefit arising from the application of the Clearinghouse's services. Assuming that risk management and operational standards of Eurex Clearing AG can be maintained, there would be no restrictions on the markets that the Clearinghouse could cover. Organized exchanges, ECN's and OTC markets can all be serviced by the Clearinghouse. Eurex Clearing AG is conceived to span geographic regions to capture cross margining benefits and to offer the advantages of a single consolidated point of risk management for members. The Clearinghouse will extend to new products and regions as directed by the financial community.

2.4 Open to Settlement Locations

The Clearinghouse will work with its members and their preferred settlement locations to ensure that the business routed through Eurex Clearing AG can be settled with maximum efficiency and minimum costs from the members' perspective.

3 IC Release 2000 Functionality

This section will describe the new functionalities to be introduced with the IC Release 2000 in October 2000. This initial implementation plan includes the functionalities that are of priority to clients and addresses the requirements of new trading platforms to be established in 2000.

3.1 Product Coverage

Eurex Clearing AG will continue as the central counterparty for the existing Eurex products. Repurchase agreements and spot transactions in highly liquid Government bonds and agency securities will be accepted by the Clearinghouse in the first stage of implementation. Eurex Clearing AG will be capable of acting as the central counterparty for all trades concluded on electronic trading platforms and will accept transactions concluded in the OTC market for the products mentioned above.

3.1.1 Repurchase Agreements

Eurex Clearing AG will provide central counterparty services to participants in the market for repurchase agreements. The Clearinghouse will process repos in the securities mentioned above. In the first phase, repo processing will be limited to fixed term repo and buy/sell transactions with a maturity up to 364 days and to repo transactions in single securities with a fixed repo rate. The Clearinghouse will not offer repo substitution functionality, although the same effect can be achieved by the parties to the original transaction inputting new trade instructions under which the new and the old securities are exchanged. The Clearinghouse will handle Repo transactions as two separate bond trades for purposes of risk management and settlement. In these areas, no distinction will be made between a bond trade arising as a leg of a Repo transaction and a bond trade submitted as a single bond transaction. Specific repo functionality will be provided in respect of transferring coupons received on securities subject to an outstanding repo transaction and reporting of outstanding repo transactions. These functionalities will be described in detail in the relevant sections below.

3.2 Functional Description

3.2.1 Interfaces to Trading Systems

Trades on electronic trading platforms using Eurex Clearing AG as its central counterparty will be routed automatically to the Clearinghouse for processing. Electronic platforms where a central counterparty is not mandatory will allow market participants to agree whether a particular transaction should have Eurex Clearing AG as central counterparty. If trading members so decide, the transaction will be routed automatically to Eurex Clearing AG for processing.

3.2.2 Membership

All Eurex Clearing AG clearing members meeting certain requirements (see 4.2), will be eligible to participate in the extended services. In addition, market participants who are not Eurex exchange participants but would like to employ Eurex Clearing AG's new clearing services may become member of Eurex Clearing AG. Membership terms will be uniform (in respect of products covered; e.g. derivatives); they will not differ according to the trading location on which the member is active.

4 Settlement

Settlement of existing Eurex derivatives will be unchanged (Clearstream Banking AG / SIS SEGAINTERSETTLE AG).

For the settlement of cash bonds and repurchase agreement transactions in German government bonds and agency securities, the Clearinghouse will support settlement in Clearstream Banking AG, and other relevant settlement locations based on member needs. The Clearinghouse will have settlement accounts in all supported settlement locations and will participate directly in batch and real time settlement processes as necessary to ensure maximal settlement. As mentioned above, the settlement of Repo transactions will not be subject to special procedures. Each leg of the Repo will be settled as would any single bond trade due on such date and in such amount.

The Clearinghouse will confirm the upcoming settlements in the form of a settlement report transmitted to each member. The Clearinghouse will submit settlement instructions for itself and for its members to the settlement locations selected by the members. The Clearinghouse will monitor the status of settlement instruction pre-matching at the relevant settlement location.

Members and Eurex Clearing AG are each responsible for ensuring that they have the cash and securities necessary to successfully settle all transactions. The Clearinghouse will be responsible for timely delivery only to the extent members deliver to it on a timely basis. Failed settlement instructions will remain in the settlement locations for settlement in a subsequent settlement process.

In the event of failed settlement instructions, the Clearinghouse might be forced to carry a long securities position from one day to the next. In such a case the Clearinghouse will make partial deliveries in order to reduce its securities balances to zero. The partial deliveries will be assigned to the Clearinghouse participant whose unsettled receipt from the Clearinghouse is the smallest and, should there be more than one such Eurex Clearing AG member, the partial delivery will be assigned on a random basis. In this case, Eurex Clearing AG will inform the member of the partial delivery and will submit the associated settlement instructions for itself and the affected member to the relevant settlement locations.

The current Eurex penalty mechanism will apply to all failed settlement instructions.

4.1.1 Repo Coupon Transfers

In respect of repo transactions, the Clearinghouse will monitor the payment of coupon interest on underlying securities. In the event of a coupon payment, the Clearinghouse will initiate a transfer of the coupon amount to the original seller of the securities. It will collect the coupons from the member who was the original purchaser of the securities by debiting its accounts.

4.1.2 Risk Management

The existing risk-based margining system for Eurex will continue to function as presently. It will be augmented by a conceptually consistent margining system for cash bonds and repurchase agreement transactions.

For risk management purposes, repurchase agreement transactions will be treated as two separate bond transactions with two different settlement dates. For example, a repurchase agreement with T+2 settlement of the spot leg and maturity of the term leg seven business days later will be broken down into two separate transactions, one with a maturity on T+2 and the other with maturity T+9. Cash amounts will be as agreed between the parties for each leg of the transactions. Margin calculations for each leg of a repurchase agreement transaction will be calculated as for individual security transactions as described below.

All new transactions will be assigned to new margin classes. These new margin classes will then be assigned to margin groups. Margin groups may include margin classes for Eurex products and for the new products cleared by the Eurex Clearing AG, allowing cross margining between derivatives and bond cash and repo transactions.

Margin requirements for security transactions, be they related or unrelated to an underlying repurchase agreement, will be calculated by the following methodology.

1. The cash and securities elements of each transaction will be considered separately. Each cash amount will be assigned a value equal to the cash amount discounted back to the calculation date using the appropriate money market interest rate for the maturity and currency of the payment in question. Each security position will be assigned a value based on the current spot price including accrued interest as of the settlement date for a spot settlement of the security. These values are referred to as Current Liquidating Values, or CLVs. All CLVs for transactions in a margin class will be added to arrive at a Current Liquidating Margin for the class. Members will be required to cover losses on their bond positions as measured by the CLM for the margin class.
2. Based on volatilities, maximum price moves will be used to calculate maximum value changes for each position, and, in their sum, for a margin class. These value changes will be used by the existing mechanisms of the risk based margining system to arrive at Additional Margin amounts for margin classes. Margin offsets will be granted via the margin group calculation methods using offset factors
3. The overall margin requirement for the member will be calculated as it is presently, treating Current Liquidating Margin for bonds analogously to options Premium Margin and treating Additional Margin analogously to Additional Margin for other Eurex products.

Margin calculations will be prepared according to the above methodology for both the clearing member overall and for each of the clearing member's NCMs. Information for each NCM from current liquidating values through to the final margin requirements will be provided to each clearing member.

4.1.3 Reporting

Members will be provided with a range of Reports and Raw data via the existing Eurex Reporting interface. The following report types are envisioned:

- Pending Trades
- Open Repo Trades
- Income Transfers
- Delivery and Settlement
- Margin Reports

4.2 Clearing Membership Requirements

Eurex Clearing AG will allow all members located in the EU/Switzerland to become a clearing member and provide clearing services to their customers. The following requirements have to be met:

- Banks or Financial Institutions which are regulated as banks domiciled in the EU/Switzerland (Banking Coordination Directive). Supervision by local authorities must be granted.
- Capital Requirements (Tier One + Tier Two as defined by BIS) are as follows:

	GCM	DCM
Eurex Derivatives Only	€ 125 Mio.	€ 12.5 Mio.
Cash Bonds Only	€ 50 Mio.	€ 5 Mio.
Cash Bonds/Repos/Derivatives	€ 175 Mio.	€ 17.5 Mio.

Capital can be substituted by guarantees, securities and cash.

- Contributions to the Clearing Fund will be determined by Eurex Clearing AG. Guarantees, securities and cash are allowed.
- Members are required to have an account with LZB/SNB for cash margin calls, coupon transfers and other cash transactions with the Clearinghouse.
- For purposes of providing the Clearinghouse securities as collateral, all Clearinghouse members must maintain collateral-securities accounts with Clearstream Banking AG / SIS SEGAINTERSETTLE AG.
- For settlement purposes, all Clearinghouse members must maintain settlement accounts with the chosen settlement locations.