X-pand into the Future

e u r e x *circular 016/05*

Date: Frankfurt, February 10, 2005
Recipients: All Eurex members and vendors, CCP members
Authorized by: Daniel Gisler

Action Required

CCP 3.0 – Alternative Netting Model for Members of Eurex Bonds and Eurex Repo

Related Eurex Circulars: 182/04, 184/04
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Content may be most important for:	**Attachments:**
➲ All departments	none

Summary:

In the course of the introduction of CCP 3.0, Eurex Clearing AG will offer the Eurex Bonds and Eurex Repo market participants an alternative regarding the currently existing Settlement Netting method (so-called ”Dual Instruction Netting“ (DIN)).

This circular describes the alternative netting algorithm “Single Instruction Netting“ (SIN) and outlines necessary activities on the member side.

Should you consider using Single Instruction Netting (SIN), we recommend checking its feasibility with regard to your internal settlement processes and whether this processing method stands in accordance with your local legislation.

If the use of Single Instruction Netting is not foreseen and you wish to use the Dual Instruction Netting (DIN) method, the information given in this circular is for information only and requires no further action on your part.

To enable the members who intend to use Single Instruction Netting to specify details like required default settings and order reports, several member forms have been adjusted. Page 2 gives a full overview of associated forms and submission details.

In order to allow enough time to incorporate the Single Instruction Netting into the documents scheduled for publication, we have postponed the publication date for the User Guide and the Report Layout Descriptions to February 28, 2005. The communication calendar in the Member Section of the Eurex website thus has been updated accordingly. To download your personal copy, please visit

www.eurexchange.com > Member Section > Documentation/Manuals CCP > CCP 3.0.

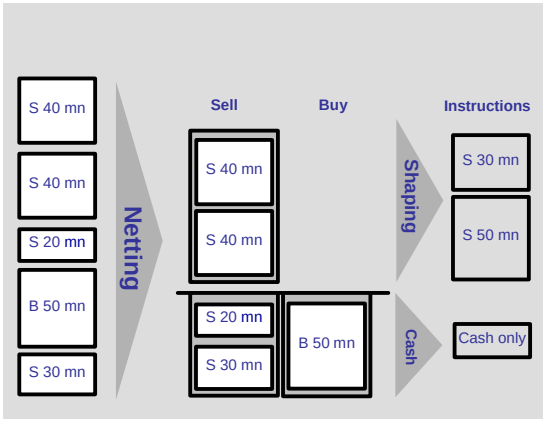
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"Single Instruction Netting" as alternative Netting Model

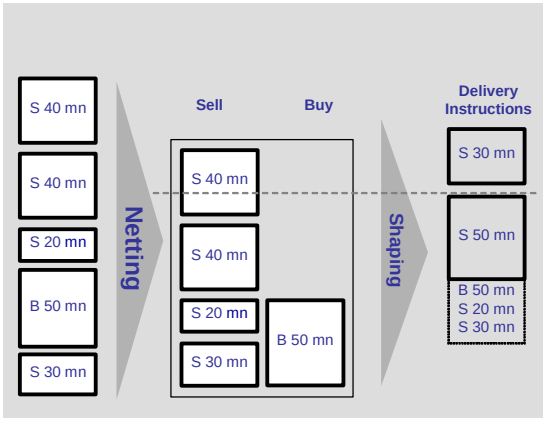
In order to accommodate the requirements of all participating Clearing Members with the introduction of CCP Release 3.0, Eurex Clearing AG will offer an alternative to the current netting algorithm to avoid adverse effects on the existing settlement logics of single members.

The following figure shows a comparison between the current "Dual Instruction Netting" (DIN) method and the alternative "Single Instruction Netting" (SIN) method:

Current Dual Instruction Netting (DIN)



Alternative Single Instruction Netting (SIN)



In contrast to the so-called Dual Instruction Netting, cash only instructions are not required under the alternative Single Instruction Netting model. Only "DvP" (delivery versus payment) instructions will be generated by the CCP and transmitted to the corresponding (International) Central Securities Depository. As with the current netting model, delivery instructions are divided into blocks of the same volume (so-called shaping functionality, see Eurex circular 013/05).

Report provision for reports CE260, CE265 and CE270 will be the same under both netting models. For Single Instruction Netting, an additional report "Pending Delivery Instructions" (CE280) will be generated. This new report will display the net delivery instructions which were sent to the (International) Central Securities Depository.

If a member selects the Single Instruction Netting model, only the following Gross Delivery Management functionalities will be available:

- inquiry of trades
- inquiry of settlement forecasts
- inquiry of settlement results

"Releasing/blocking" and "linking" of trades functionalities will not be available.

Please note that for Single Instruction Netting, the necessary defaults will automatically be set to the following parameters:

- Settlement Netting Unit: ***Standard***
- Cash Deferral: ***Yes***
- Release Method: ***Negative***

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- Processing Method: ***Net***
- Combined Netting Bonds/Repo: ***Yes***

Please note that these default settings cannot be changed in the Single Instruction Netting model.

Forms for participating in Single Instruction Netting

The following forms (as distributed with Eurex Circular 182/04 and 184/04) have been updated to allow submission of Single Instruction Netting related information.

Members who wish to participate in the Single Instruction Netting model are therefore requested to fill in and return the following forms.

Legal form:

- **"Application for Set up/Deletion/Change of CCP Settlement Accounts for Eurex Bonds/Eurex Repo"**
  The alternative Single Instruction Netting algorithm as default setting was added to this form. The form only needs to be (re-) submitted if you wish to select the alternative method (SIN).

Technical forms:

- **"Order Form for Setup/Change/Cancellation of a z/OS File Transfer (SNA) – FI CCP Settlement Reports"**
  To facilitate reconciliation when using Single Instruction Netting, the receipt of a new report CE280 is recommended. Therefore, kindly (re-) submit this form should you wish to receive the reports CE260, CE265, CE 270 **and CE280** via z/OS (SNA).

- **"Order Form for Setup/Change/Cancellation of a SWIFTNet File Transfer – FI CCP Settlement Reports"**
  To facilitate reconciliation when using Single Instruction Netting, the receipt of a new report CE280 is recommended. Therefore, kindly (re-) submit this form should you wish to receive the reports CE260, CE265, CE 270 **and CE280** via SWIFTNet.

Kindly complete and return the aforementioned forms **by February 25, 2005 latest** to the fax number indicated on the form so that your setup can be completed prior to FI CCP simulation start.

The previous versions of the affected legal and technical forms have been replaced in the Member Section of the Eurex website. To download your personal copy, please visit

www.eurexchange.com > Member Section > Fixed Income Clearing Forms > Legal

for the legal form and

www.eurexchange.com > Member Section > Fixed Income Clearing Forms > Technical

for the technical forms.

Frankfurt, February 10, 2005

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