NEW PRODUCTS AT EUREX EXCHANGE: INNOVATION FOR A CHANGING MARKET


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This decade will bring unprecedented changes to capital markets across Europe and the world. A swathe of new regulation is revolutionising the economics of trading and the market infrastructure in which participants will operate. Eurex Exchange is at the forefront of these reforms, pioneering new contracts and offering its clients a smooth path into the new market. Stuart Heath, Executive Director and Head of Eurex' representative office in the UK, discusses the exchange's strategy.

How is Eurex expanding its offering to meet the changing market?
We are making sure that Eurex Exchange has all of the instruments available for trading that a capital constrained customer base will need to operate both on the sell-side and the buy-side, and designing and introducing new products that are suited to being trading in the new regulatory environment.

Obviously there is a push towards centrally cleared, more transparent products, however, there is much more to the reforms than that. At Eurex, we are not trying to change the market structure in terms of the types of instruments that are traded and the economic profiles of those instruments but to launch products that complement the existing market while operating within the new regulatory paradigms.

We are looking forward at the coming months and years as the new regulatory environment takes shape. Leverage ratios will impact like never before as Basel III and CRD IV and we are making sure we have the right product mix in terms of both listed derivatives and clearing services.

What do you see as the key changes in how people will trade instruments?
A lot has been made of the "futurisation" of the OTC market but there is much more to the changing market than that. We will see an increased trend towards trading platforms trying to replicate swaps on exchange but not every OTC product can be replicated effectively with a future.

Offering clearing services to the OTC market is a key opportunity. We need to offer clients a way to trade across OTC and on-exchange within the same safe environment. Margin offsetting and capital efficiencies will be key but operational efficiencies are also crucial, especially for firms like long-only asset managers for whom margin offsets are of less relevance.

What new products is Eurex Exchange launching?
Firstly we are expanding asset classes. The introduction of FX over the summer was our first move into what is a new asset class for us and we will steadily build up the number of tradable currencies.

We are also looking to bolster our offerings in the traditional asset classes in which we operate. In interest rates we have always had the view that we should provide a comprehensive offering across the whole yield curve – both secured and unsecured.

This involves a number of different initiatives. We have introduced swap futures, which we believe will become more and more relevant with the introduction of mandatory clearing in Europe. Concurrently we are working to ensure that there is liquidity in Euribor at the front end of the curve. We have already gained ground in Euribor options during a fairly benign market which validates this approach. We want to offer the full listed product set that can as well be used for cross margining with OTC IRS swap products cleared by Eurex Clearing.

On the secured side, we have had significant success in our bond futures with recently introduced products such as the BTP and OAT notable for the investor interest.

On top of that we are introducing a new product at the front end of the curve in the repo futures, a secured funding product that we will introduce in November.

We have a very strong base in fixed income and are playing to our core strength as the home of the Euro yield curve. We are the natural place to come to hedge Euro exposures and are building on the significant open interest we have across all of our rates products.

Eurex has also been developing new products in its equity derivative offering?
Yes. In the equity derivatives market globally there has been much more interest in volatility products recently and we are catering to that with initiatives such as the recent launch of variance futures.

In addition, we are looking to support the full range of equity derivatives in both the volatility and the Delta-one space with the push into our MSCI products. In Europe, the two biggest OTC markets are STOXX and MSCI indices and we are developing listed instruments that will help the market trade those exposures more efficiently in the future – our MSCI futures and options offering is the broadest set listed globally.

Our VSTOXX contracts traded more than 1m in a single month for the first time, which is indicative of the growing popularity of these contracts. We also have a lot of demand for shorter-term volatility contracts. We are looking at the whole suite and seeking to play to our core competencies.

Clearing is central to the new market. What new offerings have you developed within Eurex Clearing?
The development of our new C7 clearing system is an ongoing project that is complemented by our switch to a new margining methodology Eurex Clearing Prisma, our portfolio risk managing framework.

Eurex Clearing Prisma is a key development for the European market. At a time that everyone is looking at capital efficiencies and trying to realise the benefits of cross margining listed and OTC instruments, Eurex Clearing Prisma is designed to meet this demand and the benefits will be significant for Eurex Clearing customers.

Even if a bank is focusing on managing its basis risk, there are huge benefits in having all of the instruments in one CCP. This will enable a significant reduction in both the margin payments and the bank's default fund contribution, which will significantly reduce the risk weighted assets and the funding costs of those positions.

The cost savings within that cannot be underestimated. Not only can you save millions on margin, you are also looking a huge savings in terms of capital reduction, benefiting from Eurex Clearing's unique offering across repo, cash bonds, equities, securities lending as well as listed and OTC derivatives under a single netting agreement.

Much has been made of cross margining and capital efficiencies but with little real progress so far. When will the benefits become real?
For Eurex Clearing customers, cross-margining has been offered since May of this year. The initial pickup has been modest due to the regulatory delay in terms of clearing obligation. However we already have a significant number of customers and many more are ready to make the leap over to Eurex Clearing Prisma before the end of the year. In addition we are currently working with the last few back office vendors to get their systems in place to benefit from Eurex Clearing Prisma.