



A market in itself

Gerard Denham explains how to connect to Eurex Clearing's Lending CCP

Eurex Clearing's central counterparty (CCP) service for securities lending, the Lending CCP, maintains the existing trading relationships and business structure, while a fully integrated operational process has been incorporated to assist the securities lending market transition towards centrally cleared transactions. The Lending CCP is designed for market participants to trade either bilaterally or via electronic markets for bonds, equities and exchange-traded funds (ETFs).

How to access the Lending CCP

With Eurex Clearing's Lending CCP, there are a number of options for the transmission of securities lending trades. One option allows traders using the Eurex Repo SecLend Market, an electronic communications network, to direct their loan transactions for novation to Eurex Clearing via the Eurex Repo SecLend Market trading screens.

This allows market participants to benefit from the advantages of screen-based trading backed by the service of a fully integrated qualified CCP.

Another route available to the market participants is via Pirum's CCP Gateway, which compares loan transactions between bilateral counterparties and performs a real-time validation to establish that the trade meets the criteria for central clearing.

Pirum's Real-Time Service directs the loan transactions via its CCP Gateway to Eurex Clearing's Lending CCP for novation.

These two connected flow providers subsequently communicate all loan lifecycle events such as re-rates and returns to the Lending CCP. The changes required to users' trading and technology systems are relatively low impact as Eurex Clearing's Lending CCP preserves the characteristics of bilateral trading and therefore minimises the effect of moving to a new trading model.

How the Lending CCP benefits the marketplace

A CCP for the securities finance market can facilitate the use of a cost-effective structure to improve and optimise securities finance activity through enhanced efficiency and safety for the entire marketplace. As well as helping to deliver an increase in supply to the market and improve liquidity, the CCP introduces standardised and transparent risk and collateral management methods.

By instigating the move to central clearing, efficiencies on trading and the operations of securities finance transactions can be achieved by market participants in addition to reducing their overall legal and documentation workload. The CCP's integrated cross-product service offers netting of regulatory capital across all cleared products, while being able to deliver collateral efficiency through a wide range of customised choice on collateral eligibility paired with re-use capabilities.

Overall, an increase in capital efficiency is achieved through lower risk-weighted assets (RWAs) and CCP-applicable capital charges.

Eurex Clearing has integrated both electronic markets and over-the-counter bilateral transactions within its Lending CCP service, and provides a central gateway to the central securities depositories (CSDs), international CSDs, triparty collateral agents and payment banks for securities, collateral and cash movements. A wide range of cash, bonds, equities and ETFs are eligible for the service as loan securities as well as collateral.

How the specific lender licence works

Eurex Clearing has devised a unique operating model that has been developed jointly with prominent agent lenders across Europe and the US. As a result, the beneficial owners and agent lenders are able to maintain their existing business relationships. By using a specific lender licence, which has a dedicated Eurex Clearing membership, the beneficial owners are able to remain

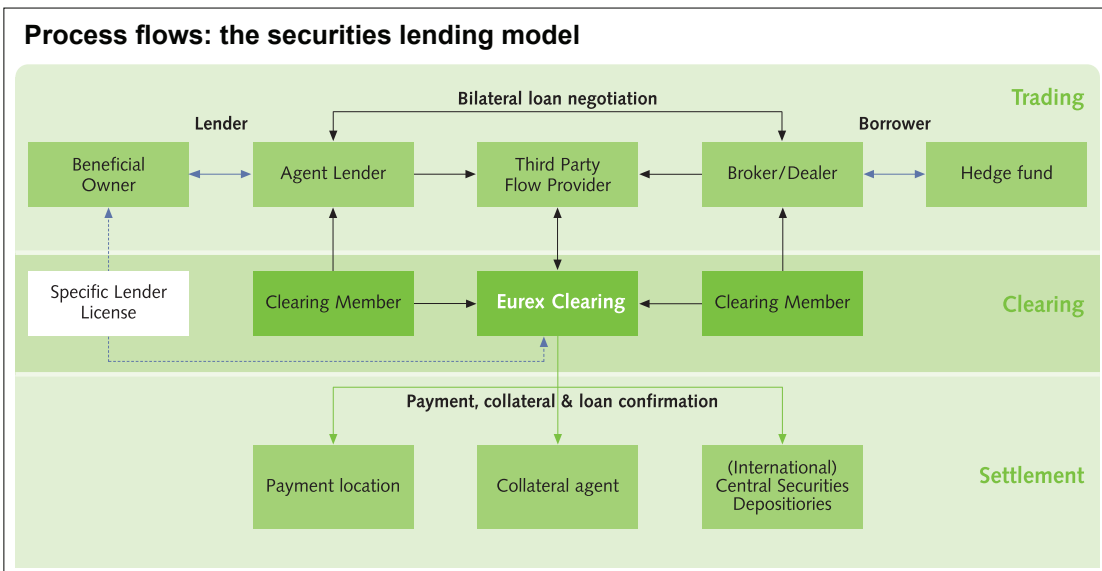
acting as principal for their loan transactions while the agent lenders remain acting in their existing agency role. The agent lender continues to arrange loans for CCP eligible transactions and uses its existing market expertise, technical infrastructure and operational links with the specialised flow providers and trading networks connected to the Lending CCP.

The distinction between Eurex Clearing's Lending CCP and other models is that—for a pure lender—there is no requirement to clear through a (third party) clearing member, no margin requirements and no contribution to a default fund. The prerequisite for the Lending CCP and users of the specific lender licence is a collateral pledge model using the services of a connected triparty collateral agent. The non-cash collateral remains on account at the CCP on a segregated basis for the underlying beneficial owner. This innovative feature has been received positively by agent lenders as it enables their existing arrangements and structures to remain in place and lets them benefit from the advantages of a qualified CCP.

CCP connection

For connecting to the Lending CCP, the participants must be able to have connectivity in place as defined in the Eurex Clearing connection agreement. For admitted clearing members, the existing CCP infrastructure can be re-used. Participants

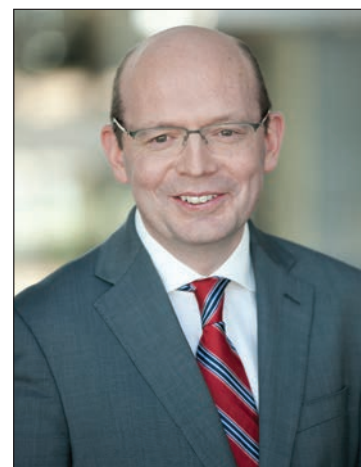
are required to send and receive loan transactions to/from one of the flow providers, handle responses from the flow provider platform, process reports from the Eurex Clearing CCP system and flow provider, as well as have access the triparty collateral Agent environment. Clearstream Banking Luxembourg or Euroclear Bank for clearing members will utilise loans against non-cash collateral.



Technical requirements include the ability to connect to the desired flow provider (Pirum and/or Eurex Repo SecLend Market). Lending CCP participants have to fulfill the following pre-conditions: for connectivity to Pirum, usage of Pirum's Real-Time Service, including the processing of marks and returns components within the Real-Time Service; and for connectivity to Eurex Repo SecLend Market, admission as a participant to Eurex Repo SecLend Market and system connectivity.

As more participants come on-board, the momentum increases as the market migrates further towards the usage of CCPs for securities finance. It is important for all market participants to continue the process of assessing their strategic and functional model for transacting via a CCP in order to adapt efficiently to this evolving development for the securities finance market. [SLT](#)

As well as helping to deliver an increase in supply to the market and improve liquidity, the CCP introduces standardised and transparent risk and collateral management methods



Gerard Denham
Senior vice president, clients and markets, securities lending
Eurex Clearing

A unique CCP for securities lending.

Another "first" from Eurex Clearing.

As one of the world's leading clearing houses, Eurex Clearing has always been an innovator in post-trade processing and risk management.

We were one of the first electronic, cross-border CCPs. And we were first to offer real-time risk monitoring.

Now we're pioneering the securities lending market with a unique, fully-integrated CCP service:

- Combining the flexibility of the special bilateral relationship structure of the market with the safety and efficiency of a CCP.
- Providing innovation with a Specific Lender License that enables Beneficial Owners to participate as Clearing Members of Eurex Clearing without a margin obligation.

So you can realize capital and operational efficiencies while counterparty risk is mitigated. And everyone stays clear to trade.

www.eurexclearing.com

Or follow us on Twitter @EurexGroup



Now available: CCP service for securities lending

EC eurex clearing