

**Squawkbox**

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# EurexOTC Clear Signs Up Over 120 Buy Side Firms

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Eurex Clearing has signed up more than 120 buy side firms for EurexOTC Clear, its central counterparty service for interest rate swaps (IRS), in 2013. In addition, a total of 32 clearing members including all major global sell side banks are connected, with other clearing members in the admission process.

While the start date of the clearing obligation for IRS is not yet determined in Europe, with sources close to the matter predicting late this year or Q1 2015, on-boarding activities for EurexOTC Clear are already gaining momentum among buy side firms, Eurex says.

According to Matthias Graulich, chief client officer, global head of clients and markets at Eurex Clearing, the reason for increased buy side interest in EurexOTC Clear is three-fold. First is its segregation solution, or the Individual Clearing Model, to protect the buy side against clearing broker default. While Eurex Clearing launched its individual segregation solution in August 2011, the company is now, after more than two years of close discussion with its clients and continuous service improvements, in a position to offer “a very strong segregation model with a high level of operational and capital efficiency, which should allow our clearing members to offer our service to their clients in a very competitive manner,” says Graulich.

Second is its cross margining ability between fixed income derivatives cleared by Eurex Clearing. “We currently clear the long end on the interest rate curve – Bund, Bobl and Schatz futures and options. We see that this provides a sound basis to offer cross margining with IRS products,” he explains. This is something that he believes is particularly attractive for hedge funds, as well as for large dealers.

The third element, which is of particular importance to asset managers, is Eurex Clearing’s wide spectrum of eligible collateral. In addition to cash and government bonds, Eurex Clearing accepts a broad range of corporate bonds, agencies and equities. “Asset managers who are fully invested can avoid transformation and collateral upgrade costs to a much larger extent based on that broad collateral spectrum,” according to Graulich.

In order to attract more buy side firms, Eurex Clearing offered early adopters the opportunity to qualify for a fee waiver, which will last until January 2016. The majority are in the final stages of the on-boarding process, just awaiting the finalised versions of three major market documents – a German clearing agreement and the client clearing documents from the Futures and Options Association (FOA) and the International Swaps and Derivatives Association (ISDA) – in order to complete on-boarding.

Eurex Clearing intends to add a number of services in 2014, including adding the cross margining module to Eurex Clearing Prisma, its new portfolio risk management system. “The Prisma methodology was already introduced for IRS in November 2012 and for equity derivatives in August 2013. The upcoming release scheduled for May 2014 will add fixed income futures and options as well as the cross margining module for fixed income derivatives,” says Graulich.

In addition, the company plans to expand its currency coverage to include the Nordic currencies and, in close alignment with the industry, is looking into new products such as inflation swaps and cross-currency swaps. Lastly, it is working closely with market participants on both the buy- and sell-side to address the issue of cash variation margin.

“Pension funds and asset managers are often faced with the issue that they are fully invested and can’t easily provide cash for variation margin. We are in the process of agreeing a solution with market participants, building on our existing successful GC Pooling service. This will be an additional key element to not only add safety to the overall market, but also deliver unparalleled capital efficiency to our clients,” Graulich adds.