Keeping the momentum – Eurex sees more opportunities in Asia

by Roland Schwinn, Eurex Frankfurt AG

Having been active in the Asian markets for quite a while, Eurex had anticipated – at a very early stage – the growing presence and the important future role the Asia-Pacific region will play in the global financial markets. As more exchange participants join in – in what could be called the second wave of internationalisation in Asia – it is crucial to keep the momentum to gain a perfect position right from the start, and Eurex is well-prepared to do so.

Asia – a growing force in the world economy

In China, the development of the financial markets is continuing. More than 160 futures companies in China will face major changes due to the predicted launch of Commodity Trading Advisors (CTA) of futures companies. This change will produce far-reaching influences on the development and improvement of the domestic pan-financial system.

Besides China, it is mainly the Indian and South Korean markets that Eurex is focusing on.

South Korea has catapulted itself into a technologically superior economic powerhouse with highly liquid financial markets. On August 30, 2010, we started an initiative that has been viewed by exchanges and other market participants as one of the most successful and innovative co-operations in Asia so far – the Eurex/KRX Link. It gives Eurex participants and KRX customers direct access to KOSPI 200 Options, the most heavily traded options contract in the world in the European and US time zones.

Since the launch, KOSPI 200 Options are available for trading and clearing nearly around the clock, thus enabling market participants to react to overnight events and market movements. Through the co-operation, Eurex has expanded its product offering for Eurex participants to a key Asian market and KRX extends access to its key product to a broad and global community of derivatives traders through the extensive Eurex network. Two years



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after the launch the product has established itself very successfully in the market. The volume development in the second year of the Eurex/KRX Link is again very promising. Since its launch the Eurex KOSPI Product has steadily increased the notional value of its daily average volume.

India has also prospered and the Indian Stock Markets have undergone major changes to stay on par with their global peers.

Malaysia and Thailand are two of the rising markets on the global map. A new plan by the Bank of Thailand, for example, seeks to ease regulations for cross-currency investment made by individuals and mutual funds in equity, debt instruments and derivatives in overseas markets.

Eurex is also seeing a growing interest for direct access to Europe with Chinese investors having an increasing exposure in European bonds and stocks. Indian proprietary firms are requesting access to European liquid futures markets, as are Korean banks and brokers.

The Eurex Asia team has closely examined the developments and is adjusting its products and services accordingly.

Eurex is well prepared for upcoming needs in these markets

The 'Asia Training & Education Initiative', launched by Eurex in August 2010, is based on building partnerships and providing know-how and valuable information. Covering China, Hong Kong, Taiwan, Singapore, India, Japan, the United Arab Emirates and Malaysia, it offers educational training for the European markets in general, and derivatives trading in particular, for trading and investment professionals as well as young academics.

Special emphasis is put on joining forces with educational institutes. These include the Chinese University of Hong Kong, the Jiao Tong University/Shanghai Advanced Institute of Finance and the National Taiwan University. Other joint initiatives will follow – in Korea, and in markets such as India and Malaysia, where additional trainings are to be offered.

To underline its long-term commitment to the region, Eurex has significantly increased its multi-lingual teams in its Asian offices who will be able to assist clients in their respective mother tongues. The head of Business Development Asia has also been relocated to Singapore, showing a strong priority to our Asian clients. The launch of new websites, specifically customised for Asian investors, also signals that Eurex 'is here to stay'.

Eurex new trading architecture – the next generation in derivatives trading

Building on its track record as the first-mover in electronic trading, Eurex Exchange is about to transform the way its customers trade at Eurex by providing more choice and greater performance while continuing to deliver renowned reliability. The new trading architecture, to be launched in Q42012, is a trading technology that will improve on Eurex's industry-leading performance while introducing more flexibility and efficiency throughout the entire trading system.

Features will include streamlined processing and reporting, improved functionality, including enhanced calendar spreads and packs and bundles, significantly reduced time-to-market for introducing new products and features as well as a more flexible schedule for software upgrades.

Innovative clearing concepts to cater for increasing needs of Asian clients

Based on growing customer interest, Eurex Clearing is preparing for regulatory approvals to be able to offer Clearing memberships in several Asian countries. The need for effective risk management has never been as important as today. Asian banking institutions are positioning themselves as pan-Asian clearing hubs. Eurex Clearing, with its state-of-the-art risk management approach, intends to also contribute to market safety and integrity as well in this region.

Eurex Clearing already offers many services that can help clients to oversee and manage their risk as well as contribute to risk reduction. The new Clearing Roadmap contains a very comprehensive package of measures. It consists of the following four major components, which are briefly described below:

i. introduction of the benefits of central clearing for over-the-counter (OTC) products;
ii. Eurex Clearing Prisma (portfolio-based margin calculation);
iii. collateral management service; and
iv. client asset protection (CAP).

The first component, the launch of central clearing for existing OTC products, will offer our customers a one-stop-shop. We will be offering interest-rate and equity-swap clearing in the future. In addition, a CCP service for the securities lending market was introduced in June 2012.

Prisma, the second component of our roadmap, is an initiative introducing a new method of calculating compensatory effects between various products. It is a so-called portfolio-based risk management tool which will be offered on a general, cross-product basis for OTC positions, exchange-traded futures and options. Its aim is to achieve the highest capital efficiency and safety by calculating risk more accurately.

Furthermore, collateral management provides a wide range of securities, which the customer is able to deposit as collateral in order to cover the risks associated with an open position. Eurex Clearing's essential objective is the continuous extension of the accepted range of securities, the link-up of further depositaries.

Eurex Clearing was also the world's first clearing house to introduce the new service offering CAP in August 2011, allowing individual customer segregation, i.e. the separation of customer positions and securities across all markets and products. In the event of a clearing member's default, the individual clearing model allows all client positions with the defaulting clearing member to be transferred to another clearing member.

All components of the entire Clearing roadmap are planned to be fully operational by 2013, but Eurex will continue looking for opportunities in order to consistently provide innovations for its customers everywhere in the world.

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