



e u r e x c l e a r i n g

*European OTC Clearing Solution
for Credit Default Swaps (CDS)*

ECB Meeting on CCP(s) for CDS

Frankfurt, 24 February 2009

Eurex Clearing delivers European CDS clearing solution that covers all key requirements

Design Requirements

- § Offer full product scope
- § Create a state of the art clearing and risk management solution specifically for CDS
- § Minimize back office impact and reuse existing processes for CDS
- § Leverage leading and proven European clearing infrastructure
- § Shared governance and economics
- § Time-to-market

Building Blocks

- Product Scope
- Functional & Risk Model
- Governance & Fees



**Eurex Clearing
delivers European
CDS clearing solution
that covers all
key requirements**

Eurex Clearing's OTC solution is tailored to the CDS market's needs based on its proven processes

Benefits

- § Counterparty risk mitigation via Central Counterparty (CCP), Eurex Clearing
- § Multilateral netting and transparency of risk positions
- § Balance sheet relief
- § Efficient use and management of collateral

Products

- § iTraxx® Europe, iTraxx® HiVol, iTraxx® Crossover indices
- Series 7, 8, 9, 10, 11 and any new index series introduced thereafter.
Maturities 3, 5, 7 and 10 years
- § To be followed by Single Name CDS, CDX® and iTraxx/CDX Tranches

Functional & Risk Model

- § Direct feed from DTCC Warehouse to Eurex Clearing
- § Warehouse continues to service the CDS contract
- § Advanced margin model designed to cover all relevant credit market specifics using CVar for initial margin calculation
- § Pre risk checks prior to novation and real time intra day after novation
- § Separate CDS clearing license and separate clearing default fund

Governance & Fees

- § Economic participation for shareholders
- § Users control CDS product scope
- § Competitive fee model

Eurex Clearing solution complies with user requirements

Eurex compliance

- The CCP should be subject to the **Settlement Finality Directive** and the **ESCB/CESR Recommendations**. ü
- **Appropriate representation of users in the governance** of the CCP and **appropriate consultation** with regard to material decisions ü
- **Access criteria should be objective, non discriminatory, risk based** (according to capital) and designed so as not to deter the access of smaller European players. Migration to CCP clearing could also take place in a risk-based way provided it was conducted with due regard to the safety and soundness of the system. ü
- Appropriate **link between CCPs and data warehouse(s)**, leveraging existing facilities as far as possible ü
- The possibility to **interoperate** with other CCPs performing similar functions around the world Tbd.
- However, if interoperability is to be achieved, CCPs should avoid competing on **risk management** grounds and there will be a number of risk management issues which will need to be addressed before interoperability becomes a real possibility. ü
- Ability to allow **back loading existing contracts**. ü
- Appropriate framework to ensure stability and resilience of the CCP, including the issue of appropriate **access to central bank liquidity, measures to separate accounts, funds and collateral and other measures to contain the effects of a default**. ü
- Ability to clear **in multiple currencies**. ü
- The CCP should follow the **TARGET2 calendar and opening times**. The EU based CCPs, and CCPs located in third countries, should open accounts with each other in order to enable them to close the positions cleared by them. ü

Current status - Eurex Clearing technically ready by end of Q1 2009

Clearinghouse

Eurex Clearing positioned to launch European OTC Clearing Solution for Credit Default Swaps (CDS)

- § Clearinghouse technical readiness targets on end Q1 2009
- § New service available for member simulation

External Dependencies

External dependencies to be resolved in order to enable market readiness

- § Resolution of technical, regulatory, legal and practical issues by ISDA (see industry commitment letter)
- § CCP access to standard default procedure by ISDA
- § Connection to Trade Information Warehouse (CCP agreement and interface)
- § Access to standard market information (License agreement and price provision)

OTC Clearing Solution for CDS technically ready by end of Q1 2009

Launch to be aligned with market readiness and recent industry commitment (latest July 2009)

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