

clear to trade



# Eurex Clearing AG

## Response

### CESR / ESCB consultation

Draft recommendations for central counterparties

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## **A. Introduction**

Eurex Clearing AG appreciates the opportunity to comment on the draft recommendations for central counterparties, which were published for a 3-month consultation along with draft recommendations for securities settlement systems by the Committee of European Securities Regulators (CESR) and the European System of Central Banks (ESCB) on 23 October 2008. As one of the world's leading clearing organizations providing a complete set of clearing and risk management services for major exchanges and market places, Eurex Clearing welcomes the aim of the recommendations to promote a safe, sound, and efficient pan-European post-trading arrangement. In particular, Eurex Clearing agrees that the recommendations should serve to increase confidence in European Union markets through ensuring application of measures aimed to limit and manage risk.

## **B. Comments**

Eurex Clearing recognizes the inter-linkages of the recommendations with other European regulatory and policy initiatives in which Eurex Clearing has also been directly involved and from which it is directly affected. Eurex Clearing appreciates the efforts of the ESCB and CESR in ensuring that the draft recommendations are consistent with those initiatives, as well as the clarifications offered concerning in what ways the various initiatives are consistent with versus differ from the recommendations.

Although the recommendations do not seek to establish harmonized standards across the European Union, they will serve an important function in response to the ongoing financial crisis, namely establishing a minimum level of risk management and control to which regulators should ensure CCPs in their markets adhere. In this context, Eurex Clearing also very much welcomes the introduction of measures covering over-the-counter derivatives, including, for example, credit default swaps. Furthermore, Eurex Clearing welcomes the recognition that national regulators can continue to apply stricter measures in their jurisdictions than those called for under the recommendations. This will serve to ensure that entities with particularly strong risk management processes and capabilities can continue to serve a stabilizing and trust-enhancing role in their markets.

Eurex Clearing, as a leader in effective and innovative risk management processes, takes risk management very seriously. Risk is calculated real-time / event driven by using Eurex Clearing's Risk Based Margining method where margins are calibrated to cover the risk on a 99% confidence level per product.

In order to be able to provide clearing members this important risk information with greater frequency, Eurex Clearing provides intra-day risk reporting. By using intra-day risk reporting, clearing members receive important risk information every 10 minutes. This service was designed to allow clearing members a prompt monitoring of risk and the subsequent margin requirements for themselves as well as for their customers (including non-clearing members).

More generally, Eurex Clearing guarantees the fulfilment of every contract in every market for which it provides services. This is ensured through a multi-level security system. The mainstay of this system is margin, which clearing members deposit as collateral for open

positions. Beyond margin, the system consists of multiple layers of safety nets to protect the marketplace in the event of a possible clearing member default.

These lines of defence are:

- Position netting
- Collaterals of clearing member in default
- Fund contribution of clearing member in default
- Eurex Clearing reserves
- Fund contribution of non-defaulting clearing members
- Eurex Clearing equity capital
- Internal guarantee of parent companies (SWX Swiss Exchange and Deutsche Boerse AG)

The layers are built upon each other to ensure stability. In the event of a default, they are drawn in the order listed.

By using its proprietary Risk Based Margining, Eurex Clearing has always maintained sufficient margins to cover members' composite risk. As a testament to the robustness of this method, to date, Eurex Clearing has never had to draw upon the contributions of a clearing member to the clearing fund (third line of defence); these stress-tested safety measures are reliable.

Eurex Clearing is convinced that these unique, robust risk management processes contribute in a vital way to the strength and safety of the markets in which it operates.

### **C. Conclusion**

Eurex Clearing welcomes the draft recommendations from CESR and the ESCB for central counterparties and looks forward to cooperation with the relevant counterparties to evaluate compliance. Furthermore, Eurex Clearing looks forward to further consultation regarding the integration of measures focused on over-the-counter derivatives in the recommendations.

Eurex Clearing would also like to acknowledge that it has worked closely with the response of the European Association of Central Counterparty Clearing Houses in ensuring that other issues of importance to Eurex Clearing have been addressed.

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For questions regarding this consultation response, please contact:

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