



## GLOBAL CLEARING LINK

### Overview Presentation: Concepts & Benefits

*Delivered to Operations Task Force March 26, 2004*

*NOTE: The Global Clearing Link and its underlying concept is subject to approval by CFTC & European regulatory authorities.*

# INTRODUCTION

## □ Presentation Objectives

- Review Global Clearing Link concept
- Discuss potential timelines and general approach to implementation
- Provide update on current status
- Review next steps and ongoing communication plans

## □ Presentation Format

- 35 minute presentation
- 10 minute Q&A

## NEED FOR REGULATORY APPROVAL

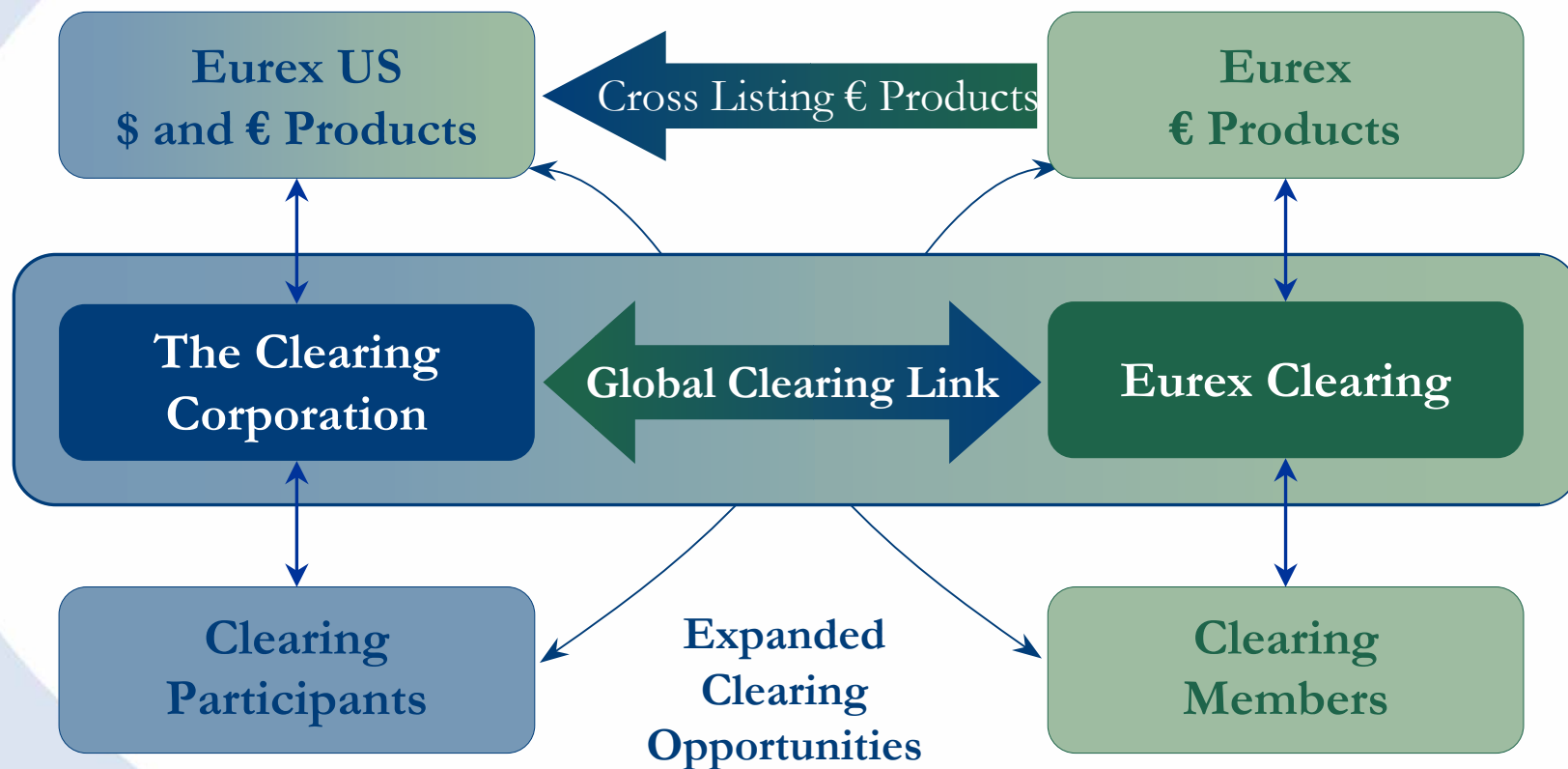
- Certain aspects of the Global Clearing Link will require approval from regulatory authorities in the U.S. and Europe, including the CFTC, BaFin and State of Hesse.
  
- We have initiated discussions with the regulatory agencies regarding the design and operation of the Global Clearing Link, but the approval process is not complete at this time.
  
- The information provided in this presentation, as well as other communications we have regarding the design and operation of the Global Clearing Link, are subject to change pending regulatory approval.

## OUR COMMON VISION

- Create a global marketplace for trading and clearing futures and other derivatives
- Provide new trading and clearing opportunities for customers worldwide
- Accelerate growth in the futures industry
- Partner with market participants
- Provide open and equal access - establish a level playing field in the US futures industry
- Provide high quality services at the lowest possible cost

# THE GLOBAL CLEARING LINK CONCEPT

*"Our vision for a more comprehensive global clearing solution"*



# GLOBAL CLEARING LINK VALUE PROPOSITION

- ❑ **Provides FCMs with the flexibility to select a clearing solution that provides the “best fit” for their business**
  - Consolidation: Clear two marketplaces with a single clearing membership
  - Diversification: Options for routing trades
- ❑ **Improves capital utilization and operating efficiency**
  - Allows collateral pools from two markets to be combined
  - Provides portfolio margin offsets between EU and US products
  - Allows US firms clearing through CCorp to deposit customer segregated funds as margin
  - Leverages proven systems and infrastructures
- ❑ **Creates additional business opportunities**
  - 21 hour trading of benchmark EU products
  - Full fungibility between EU benchmark products listed at Eurex and Eurex US

## THREE MODULES OF THE GLOBAL CLEARING LINK

### EU Link

- ❑ CCorp clearing participants will be able to clear “CFTC approved”<sup>1</sup> EU products traded at Eurex
- ❑ CCorp clearing participants will be able to utilize portfolio margining between EU and US products and one common collateral pool

### US Link

- ❑ Clearing members of Eurex Clearing will be able to clear US products traded at Eurex US
- ❑ Clearing members of Eurex Clearing will be able to utilize portfolio margining between EU and US products and one common collateral pool

### Link for Cross-Listed Products

- ❑ Allow 21 hrs trading of “CFTC approved”<sup>2</sup> European benchmark derivatives through listing on Eurex US
- ❑ CCorp clearing participants and clearing members of Eurex Clearing will be able to clear EU products traded on Eurex US

## PRODUCTS ELIGIBLE FOR THE CLEARING LINK

### Traded on Eurex US

- *US Interest Rate Derivatives:* Futures and Options on US Treasury products (2/5/10 year Notes and 30 year Bond)
- *US Equity Index Derivatives:* Russell Index Products (TBD)

### Traded on Eurex and Eurex US<sup>1</sup>

- *European Interest Rate Derivatives:* Futures and Options on Euro-Schatz, Euro-Bobl, and Euro-Bund
- *European Equity Index Derivatives:* Dow Jones Euro-STOXX<sup>SM</sup> 50 Future and DAX<sup>®</sup> Future

### Traded on Eurex

- *European Interest Rate Derivatives:* One-Month EONIA Future, Three-Month EURIBOR Future, Options on Three-Month EURIBOR Future, Euro-BUXL Future
- *European Equity Index Derivatives:* DJ Global Titans 50<sup>SM</sup> Index Future, DJ STOXX 50<sup>SM</sup> Future, DJ STOXX<sup>SM</sup> 600-Banks-Future, DJ Euro STOXX<sup>SM</sup>-Banks-Future

# THE FUNCTIONAL FRAMEWORK FOR GLOBAL CLEARING

## Regulatory Oversight

- Central counterparty
- Reporting
- Applicable laws and regulations

## Legal Relationship

- Guaranty
- Margin policies
- Collateral management
- Initial margin
- Rules and procedures
- Participation criteria

## Operational Infrastructure

- Banking and settlement
- Mark-to-market
- Delivery processing
- Open interest
- Trade management

# KEY PRINCIPLES OF GLOBAL CLEARING LINK

## Global Clearing Link

Determined by exchange location	Determined by clearing relationship	Determined by product type (€ or \$)
“Primary Clearing House”	“Destination Clearing House”	“Home Country Clearing House”
Regulatory oversight	Legal relationship	Operational infrastructure

- ❑ Three underlying principles provide a framework for accommodating different elements of the trading and clearing process chain within the Global Clearing Link
- ❑ Any component of the Global Clearing Link can be based on one of these three guiding principles

# EACH EXCHANGE WILL HAVE ONE SPECIFIC CLEARING HOUSE AS COUNTERPARTY FOR ALL TRANSACTIONS

Regulatory oversight determined by where the trade is executed

## “Primary Clearing House”

- The Primary Clearing House receives trades from the exchange and acts as central counterparty for all trades executed on the exchange
- CFTC is the regulatory agency for trades executed on Eurex US and therefore
  - CCorp is the Primary Clearing House for Eurex US
- Exchange Supervisory Authority of the State Hesse and German Financial Supervisory Authority (BaFin) are the regulatory authorities for trades executed on Eurex and therefore
  - Eurex Clearing is the Primary Clearing House for Eurex

# EACH CLEARING MEMBER WILL NEED ONLY ONE CONTRACTUAL RELATIONSHIP WITH THE CLEARING HOUSE OF ITS CHOICE

Legal framework determined by clearinghouse membership

## “Destination Clearing House”

Regardless of the exchange where the transaction is executed, the “Destination Clearing House” is the legal counterparty to its clearing members/participants and is responsible for:

- Original Margin process, policies and systems
- Collateral management
- Default rules and procedures as well as legal framework of guaranty
- Fulfillment of all participant obligations

# EXISTING MARKET PRACTICES REMAIN UNCHANGED BY THE GLOBAL CLEARING LINK

Infrastructure, functionality and processes for settlement and position management determined by the underlying product

## “Home Country Clearing House”

- CCorp is the Home Country Clearing House for US products
- Eurex Clearing is the Home Country Clearing House for EU products
- The Home Country Clearing House provides the infrastructure for clearing, settlement and position maintenance
- The Home Country Clearing House operates the infrastructure as a facilitator for operations such as:
  - Administration of variation margin (daily pay / collect)
  - Option exercise / assignment processing
  - Physical Delivery and Cash infrastructure

## COOPERATION BETWEEN CCORP AND EUREX CLEARING CREATES TRANSATLANTIC CLEARING OPPORTUNITIES

- ❑ **The contractual relationship between a clearing member and the clearing house of choice remains unchanged**



The availability of an extended product scope for clearing is solely facilitated by the contractual relationship between CCorp and Eurex Clearing in their capacity as primary clearing houses

- ❑ **Harmonized rules and standards allow existing market practices to persist**



Each clearing house will incorporate or adopt relevant parts of the other's rules in its own regulations to allow the Home Country Principles to be applied

- ❑ **Existing infrastructures for the respective products will be re-used**



The contractual relationship between CCorp and Eurex Clearing allows each to use the partner clearing house as system facilitator

## KEY PRINCIPLES IN PRACTICE

### A participant of CCorp executes transactions in EU products

#### Primary Clearing House Principle

- The transaction is executed on Eurex, therefore Eurex Clearing is the primary clearing house and becomes the central counterparty to CCorp for the Eurex transaction

#### Destination Clearing House Principle

- The clearing participant is admitted for clearing at CCorp, therefore CCorp as destination clearing house interposes itself between the primary clearing house and its own member and becomes counterparty to Eurex Clearing and the clearing participant

#### Home Country Clearing House Principle

- Eurex Clearing is the home country clearing house for EU-products and therefore defines standards and processing rules. The technical systems of Eurex Clearing are used for clearing functionality and standard European processes apply for settlement

# KEY PRINCIPLES IN PRACTICE

## Lifecycle for EU-products

### Variation Margin payments are made in EUR

As a facilitator for CCorp, Eurex Clearing debits/credits variation margin payments related to the participant of CCorp.

### Original Margin is eligible for portfolio margining and can be secured with one common collateral pool

CCorp carries the risk vis-a-vis its participant and therefore the CCorp participant has to deposit collateral for original margin requirements with CCorp

### Physical delivery is required in EU-product underlyings

As a facilitator for CCorp, Eurex Clearing notifies the participant of CCorp. Delivery follows established European standard processes

# GLOBAL CLEARING LINK TIMELINE

## (PRELIMINARY PROPOSAL)

### MAR

- OTF Meeting
- Distribute technical overview on EU Link
- Distribute preliminary release notes for full link

### APR

- Firm meetings
- OTF Meetings
- Technical workshops
- Simulation testing € Link begins
- Distribute functional docs for EU Link

### MAY

- Firm Meetings
- OTF Meetings
- Simulation testing € Link (cont)
- General availability € Link
- Technical workshops

### JUN

- Firm meetings
- OTF Meetings
- Distribute final release notes for full link
- Simulation testing € Link (cont)
- Technical workshops

### 3Q/4Q

- Firm meetings
- OTF Meetings
- Simulation testing for full link
- Simulation workshops
- Systems training in Europe
- Launch of full link

# IMPLEMENTATION APPROACH

## ❑ The Global Clearing Link will comprise three components:

- **EU Link:** Global Clearing Link for EU Products
- **US Link:** Global Clearing Link for US Products
- **Link for Cross-Listed Products:** Global clearing services for 21-hour trading in cross-listed EU Products

## ❑ These components enable a phased launch of the Global Clearing Link

- To ensure a smooth implementation and to balance customer and market demands, the introduction of the EU Link has been scheduled for May 2004.
- Firms can adopt the EU Link at their own pace to meet their specific business requirements
- CCorp will work with firms and vendors to support individual roll-out schedules for the EU Link
- The other components are planned to be introduced in autumn 2004.

# GLOBAL CLEARING LINK COMMUNICATION PLAN

## □ Industry Committees

- Designed to involve industry participants in the planning and implementation process
- **Cross-Border Committee:** sponsored by FIA to focus on business and operational issues at an industry level (*chaired by Wendell Kapustiak of Merrill Lynch*)
- **Operations Task Force (OTF):** sponsored by CCorp to focus on implementation issues for U.S. firms (*chaired by Wendell Kapustiak of Merrill Lynch*)
- **Clearing Committee:** sponsored by Eurex Clearing to focus on implementation issues for European firms (*chaired by Alfred Kirchmann of Citigroup*)

## □ Workshops and Training Classes

- Designed to disseminate committee work products and CCorp technical information to clearing participants
- To be held in Chicago, New York and Europe beginning 2Q04

## □ Web Site

- Designed to provide industry participants with ongoing status of key activities and access to latest technical information
- Daily and weekly updates on CCorp web site beginning late March

## NEXT STEPS FOR FIRMS

- Determine desired implementation date for Euro Link (first component)
- Contact vendors and CCorp to declare intent
- Review technical documentation on Euro Link
- Work with CCorp to develop implementation approach/plan for the firm
- Use OTF and web site to access current technical information and status updates

## SUMMARY: BENEFITS OF GLOBAL CLEARING

- ❑ Existing systems can be leveraged to access a broad range of EU and US products
- ❑ Single collateral pool and re-hypothecation of customer segregated funds promotes efficient use of capital
- ❑ Portfolio margining recognizes a reduction in risk and reduces costs to customers
- ❑ Combined clearing mechanism creates single liquidity pool, allowing market users to trade the same contract on either exchange