

## Eurex Clearing Circular 029/18

# Roadmap for collateral: Collateral fee adaptations and incentives to strengthen CCP risk management

### Summary

Effective **3 April 2018**, the following measures of Eurex Clearing will come into effect:

#### General adaptations to collateral fees:

- Introduction of a benchmark reference rate for the calculation of interest rates on customer cash collateral
- Changes to cash handling and securities collateral fees

#### Treatment of gross segregation and direct membership models:

- Collateral fee incentive scheme
- Intended adjustment of default fund contributions by end of the year, subject to further market consultation and EMIR Risk Committee

This circular contains the updated sections of the Clearing Conditions and the Price List of Eurex Clearing AG, as decided by the Executive Board of Eurex Clearing, which will come into effect on 3 April 2018.

#### Attachments:

- Updated sections of the Clearing Conditions of Eurex Clearing AG
- Updated sections of the Price List of Eurex Clearing AG

**Date:** 7 March 2018

#### Recipients:

All Clearing Members, Non-Clearing Members, Basic Clearing Members, OTC IRS FCM Clients and Registered Customers of Eurex Clearing AG and Vendors

#### Authorized by:

Heike Eckert

#### Target group:

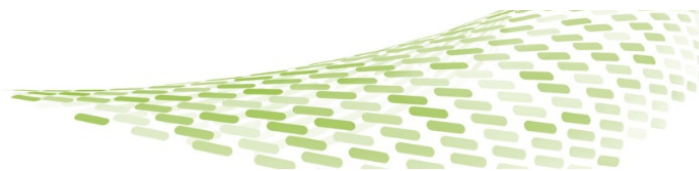
Middle-/Backoffice

#### Related Eurex Clearing circulars:

033/15, 138/15, 043/17

#### Contact:

Your Group Client Key Account Manager Clearing, [clearing.services-admission@eurexclearing.com](mailto:clearing.services-admission@eurexclearing.com); Eurex Pricing, [eurex.pricing@eurexexchange.com](mailto:eurex.pricing@eurexexchange.com)



## Roadmap for collateral: Collateral fee adaptations and incentives to strengthen CCP risk management

In response to changed market conditions, client requests and to further support the regulatory agenda, Eurex Clearing will introduce multiple measures in the course of 2018 concerning collateral fees and the default fund contribution.

Focus items within this roadmap are:

- Increase transparency with regard to returns on cash collateral
- Provide incentives for a balanced mix of cash and securities collateral
- Provide incentives for the migration from net to gross segregation and direct clearing models to improve portability and strengthen the CCP robustness in time of stress

The segregation incentive scheme is planned to be complemented later in 2018 by an adjustment of the default fund contributions taking the level of client segregation into account.

### 1. Introduction of a benchmark reference rate for the calculation of interest rates on customer cash collateral

In general, Eurex Clearing places cash on a secured basis, collateralized with high quality collateral. Currently, interests earned from such cash investments are passed on to Clearing Members on a voluntary basis, reduced by a cash handling fee per currency (Customer Interest Rates). To increase transparency, the calculation of Customer Interest Rates per currency will in future be based on publicly available benchmark reference rates.

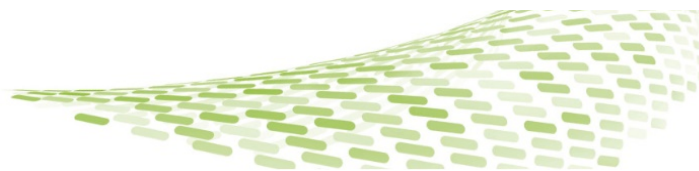
The pre-defined benchmark reference rate per currency is shown in the table below:

Currency	Benchmark per currency
EUR	STOXX GC Pooling Overnight
CHF	SARON
GBP	RONIA
USD	Effective Fed Funds Rate

In a negative interest rate environment, Eurex Clearing only applies the above-mentioned benchmarks reference rates if the Customer Interest Rates calculated on the basis of such benchmarks are more beneficial for the customer than those calculated on the basis of actually realized expenses. In exceptional cases such as, but not limited to, extraordinary market conditions or disruptions, Eurex Clearing reserves the right to apply interest rates actually received through the placement of funds instead of applying predefined benchmark rates.

To implement the changes, the following provisions of the Clearing Conditions of Eurex Clearing AG (Clearing Conditions) will be amended as outlined in Attachment 1:

- Chapter I Part 1 Number 3.4.4



## 2. Changes to cash handling and the securities collateral fees

### a. Changes to the cash handling fee

In May 2015, Eurex Clearing introduced a temporary reduction of 50 percent on the cash handling fee on margin collateral and default fund contributions for the currencies euro (EUR), Swiss franc (CHF) and US dollar (USD) in a negative interest rate environment. Following changes in the market environment and in line with market practice, this reduction will be abolished with effect from 3 April 2018.

### b. Concentration add-on for the security collateral fee

For the calculation of the security collateral fee on margin collateral and default fund contributions, a sliding scale logic already applies depending on the cash proportion delivered. In line with the clearinghouse regulatory requirement for CCP liquidity resources, the lowest band of the sliding scale will be increased from 15 percent to 20 percent cash component.

In line with this, a Clearing Member with a cash collateral proportion of lower than 20 percent of the total margin and default fund requirement will be charged an additional 10 basis points as concentration add-on on security collateral. In order for Clearing Members to be able to adjust their collateral mix accordingly, this concentration add-on is waived until 1 January 2019. Members will be informed in a separate Eurex Clearing circular on the introduction date.

The following table provides an overview of the collateral fee charged for cash and securities valid as of 3 April 2018:

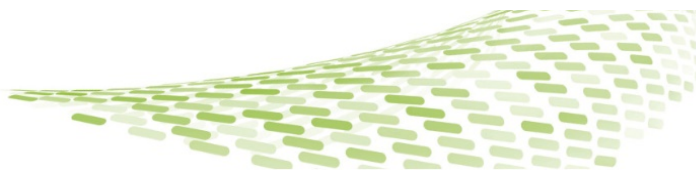
Collateral fees	Pricing as of 3 April 2018 in basis points		
	0 – 19.99%	20% – 29.99%	≥ 30%
Cash component of default fund/total margin requirement			
Cash handling fee on currencies EUR, CHF, GBP	20		
Cash handling fee on currency USD	50		
Security collateral fee	10	7.5	5
Concentration add-on on security collateral*	10*	-	-
Re-use securities**	3**		

\* Waived until 1 January 2019.

\*\* Waived until further notice.

To implement the changes, the following provisions of the Clearing Conditions and the Price List of Eurex Clearing AG (Price List) will be amended as outlined in Attachments 2 and 3:

- Chapter I Part 2 Number 4.2 (iii) of the Clearing Conditions (Attachment 2)
- Numbers 9.1, 9.2, 9.4, 9.5 of the Price List (Attachment 3)



### 3. Introduction of an incentive scheme for gross segregation and direct membership

#### a. Collateral fee incentive scheme for ISA Direct Clients (Basic Clearing Members), Registered Customers and Specified Clients in gross omnibus and individual segregated account models

To strengthen the robustness of the CCP risk management framework and client asset protection, Eurex Clearing provides an incentive scheme to support clients in gross omnibus (GOSA) and individual segregation (ISA). The following measures will apply to collateral provided to cover margin requirements and will become effective as of 3 April 2018:

- Registered Customers (RCs) and Specified Clients (SCs) clearing only Eurex Exchange Traded Derivatives Transactions (Eurex ETD) or Eurex ETD and OTC Interest Rate Swap (IRS) Derivatives Transactions (same Member ID/same account) will be charged half of both, the regular cash handling fee and the regular security collateral fee;
- RCs clearing only OTC IRS Derivatives Transactions benefit from a security collateral fee waiver already today. This waiver will be extended to SCs;
- ISA Direct Clients (BCMs) will be charged half of the security collateral fee. However, until further notice Eurex Clearing will waive the security collateral fee for BCMs.

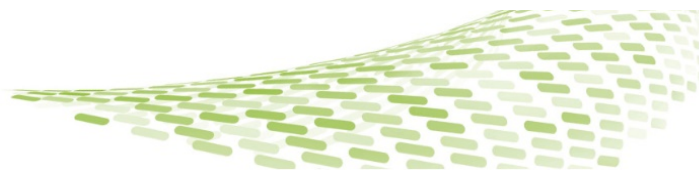
The following table provides an overview of the collateral fee charges for clients qualifying for the incentive scheme as of 3 April 2018:

ISA Direct/BCM	Collateral fees	Pricing as of 3 April 2018 in basis points		
		0 – 19.99%	20% – 29.99%	≥ 30%
	Cash component of default fund/total margin requirement			
	Cash handling fee on currencies EUR, CHF, GBP	20		
	Cash handling fee on currency USD	50		
	Security collateral fee**	5**	3.75**	2.5**
	Concentration add-on on security collateral**	5**	-	-
	Re-use securities**	3**		

RC/SC in GOSA/ISA	Collateral fees	ETD/ETD + OTC In basis points			OTC in basis points		
		0 – 19.99%	20% – 29.99%	≥ 30%	0 – 19.99%	20% – 29.99%	≥ 30%
	Cash component of default fund/total margin requirement						
	Cash handling fee on currencies EUR, CHF, GBP	10			20		
	Cash handling fee on currency USD	25			50		
	Security collateral fee	5	3.75	2.5	0		
	Concentration add-on on security collateral*	5*	-	-	-	-	-

\* Waived until 1 January 2019.

\*\* Waived until further notice.



In order to benefit from the segregation incentives, the following requirements must be fulfilled:

- Clearing Members must set up a separate collateral pool (“ETD Incentive Pool”) for RCs and SCs clearing Eurex ETD only or both, Eurex ETD and OTC IRS Derivatives Transactions (same Member ID/same account) under the gross omnibus segregation model;
- Clearing Members must set up a separate collateral pool (“OTC Incentive Pool”) for SCs clearing only OTC IRS Derivatives Transactions under the gross omnibus segregation model.

RCs, SCs and their clients with the same right of incentive can share a common incentive pool.

For the setup of the separate collateral incentive pool it is required to submit a special form. Please contact your Group Client Key Account Manager Clearing.

To implement the changes, the following provisions of the Clearing Conditions and the Price List will be amended as outlined in Attachments 2 and 3:

- Chapter I Part 2 Number 4.2 (iii) of the Clearing Conditions (Attachment 2)
- Numbers 9.1, 9.2, 9.4, 9.5 of the Price List (Attachment 3)

#### **b. Intended adjustment of the Default Fund contributions**

To further support higher levels of segregation, Eurex Clearing intends to change the calculation of default fund contributions to take into account the type of segregation resp. the membership type. The change relates only to allocation of default fund contributions across Clearing Members, whereas other related elements of the framework, such as sizing of the Default Fund based on stress scenarios and “cover-2” calculations and also minimum absolute contribution amounts, remain unchanged.

Eurex Clearing will consult with market participants and the Risk Committee on an appropriate calibration.

The relevant amendments of the Clearing Conditions will become effective on 3 April 2018. As of the effective date, the full version of the amended Clearing Conditions will be available for download on the Eurex Clearing website [www.eurexclearing.com](http://www.eurexclearing.com) under the following link:

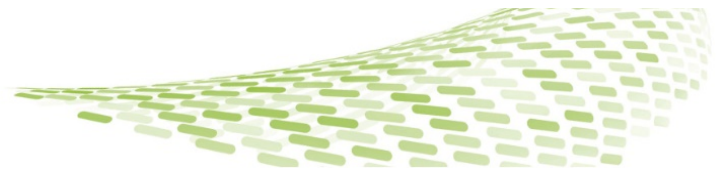
#### **[Resources > Rules and Regulations > Clearing Conditions](#)**

Pursuant to Chapter I Part 1 Number 17.2.2 and Number 17.2.6 of the Clearing Conditions, each change and amendment of the Clearing Conditions published by this circular to Clearing Members, Non-Clearing Members, Registered Customers, OTC IRS FCM Clients and Basic Clearing Members affected by such change or amendment (Affected Customers) at least fifteen (15) Business Days prior to the effective date indicated herein, are deemed accepted by each Affected Customer, unless it objects by written notice to Eurex Clearing AG within such period. The right of Eurex Clearing AG to terminate the Clearing Agreement pursuant to Chapter I Part 1 Number 7.2.1 Paragraph (4) shall remain unaffected.

The relevant amendments of the Price List will become effective on 3 April 2018. As of the effective date, the full version of the amended Price List will be available for download on the Eurex Clearing website under the following link:

#### **[Resources > Rules and Regulations > Price list](#)**

Pursuant to Number 14 Paragraph 3 of the Price List, the amendments to the Price List as communicated with this circular shall be deemed to have been accepted by the respective Clearing Member unless such Clearing Member’s written objection is submitted to Eurex Clearing AG within ten (10) business days after publication.



Terms used and not otherwise defined in this circular shall have the meanings ascribed to them in the Clearing Conditions.

If you have any questions or need further information, please contact your Group Client Key Account Manager Clearing or send an e-mail to: [clearing.services-admission@eurexclearing.com](mailto:clearing.services-admission@eurexclearing.com) or [eurex.pricing@eurexexchange.com](mailto:eurex.pricing@eurexexchange.com).

7 March 2018

Chapter I of the Clearing Conditions of Eurex Clearing AG

# General Provisions

As of 03.04.2018

Attachment 1 to Eurex Clearing circular 029/18	Eurex04e
Clearing Conditions of Eurex Clearing AG	As of 03.04.2018
	Page 2

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AMENDMENTS ARE MARKED AS FOLLOWS:

INSERTIONS ARE UNDERLINED

DELETIONS ARE CROSSED OUT

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[...]

**Part 1 General Clearing Provisions**

[...]

**3 General Provisions regarding Margin**

[...]

[...]

**3.4 Currency Conversion, Use of Eligible Margin Assets in the form of cash and Income on Margin Assets, Participation of Clearing Members in Investment Losses**

[...]

3.4.4 Eurex Clearing AG may agree from time to time to pay interest on Eligible Margin Assets in the form of cash actually delivered by a Clearing Member or a Basic Clearing Member (or Clearing Agent acting for the account of the Basic Clearing Member) to Eurex Clearing AG in respect of Margin. Eurex Clearing AG publishes information on the calculation of interest as well as any changes to the applicable calculation method due to extraordinary market conditions or market disruptions on its website ([www.eurexclearing.com](http://www.eurexclearing.com)). Such information will be amended from time to time and published accordingly. Any income on Eligible Margin Assets in form of Securities actually delivered by a Clearing Member or a Basic Clearing Member to Eurex Clearing AG in respect of Margin shall be subject to the specific provisions of the Elementary Clearing Model Provisions, the Individual Clearing Model Provisions, the Net Omnibus Clearing Model Provisions, the U.S. Clearing Model Provisions or the Basic Clearing Member Provisions.

[...]

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Chapter I of the Clearing Conditions of Eurex Clearing AG

# General Provisions

As of 03/04/2018

Attachment 2 to Eurex Clearing circular 029/18	Eurex04e
Clearing Conditions of Eurex Clearing AG	As of 03/04/2018
Chapter I Part 2	

[...]

## **Part 2 Elementary Clearing Model Provisions**

[...]

### **Part 2 Subpart C: Clearing of Omnibus Transactions**

[...]

#### **4 Internal Omnibus Margin Account; Allocation**

4.1 Eligible Margin Assets actually delivered to Eurex Clearing AG and allocated to the relevant Internal Omnibus Margin Account shall constitute Margin for Omnibus Transactions.

4.2 Subject to Subpart D, an Internal Omnibus Margin Account shall only be established in accordance with the following provisions:

- (i) each Client Transaction Account shall, and may only, be allocated to one Internal Omnibus Margin Account;
- (ii) several Client Transaction Accounts may be allocated to the same Internal Omnibus Margin Account;
- (iii) a single GOSA Direct Client Account may not be allocated to an Internal Omnibus Margin Account as the only Client Transaction Account, unless (i) such GOSA Direct Client Account is the only Client Transaction Account of the relevant Clearing Member, or (ii) in cases of Numbers 9.1 and 9.2 of the Price List of Eurex Clearing AG; and
- (iv) a single GOSA Indirect Client Account may not be allocated to an Internal Omnibus Margin Account as the only Client Transaction Account, unless the Indirect Client to which the GOSA Indirect Client Account relates is the only Indirect Client of the related Direct Client.

4.3 Eligible Margin Assets allocated to an Internal Omnibus Margin Account are allocated to the Client Transaction Accounts that, as per the specification made by the Clearing Member (in the form requested by Eurex Clearing AG), relate to such Internal Omnibus Margin Account in accordance with Subpart A Number 4.4.1 or 4.4.2, as applicable.

[...]

Attachment 2 to Eurex Clearing circular 029/18	Eurex04e
Clearing Conditions of Eurex Clearing AG	As of 03/04/2018
Chapter I Part 2	

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[...]

## **9. Service Fees for Collaterals, Default Fund Contributions and Funds provided for the Fulfilment of Own Funds or equivalent Regulatory Capital Requirements**

### **9.1 Service Fees for Eligible Margin Assets in the Form of Cash**

For Eligible Margin Assets in the form of cash delivered as cover, a fee will be charged. The fee will be charged on the entire Eligible Margin Assets in the form of cash delivered by Clearing Members.

The fee for Eligible Margin Assets in the form of cash delivered as cover is determined according to the currency in which the delivery of Eligible Margin Assets in form of cash by the Clearing Member occurs. The respective fee therefore amounts to in case of cash in:

CHF: 0.20% p.a.

EUR: 0.20% p.a.

GBP: 0.20% p.a.

USD: 0.50% p.a.

The calculation of the fee will be performed act / 365 based on the value of the Eligible Margin Assets in the form of cash delivered and recorded in the respective internal mMargin aAccount (Chapter I Part 2 Number 4.2 of the Clearing Conditions of Eurex Clearing AG), the Segregated Internal Margin Account (Chapter I Part 3 Subpart A Number 4.1.2 of the Clearing Conditions of Eurex Clearing AG) and the Internal Net Omnibus Margin Account (Chapter I Part 4 Number 4.2 of the Clearing Conditions of Eurex Clearing AG) of the Clearing Member/Basis Clearing Member/ OTC IRS FCM Clearing Member.

Eurex Clearing AG grants a discount of 50 per cent on the fee with respect to Eligible Margin Assets in the form of cash provided as cover for Eurex Transactions booked on accounts within an RC Transaction Accounts Group, a SC Transaction Accounts Group or on an ICM Transaction Account of a Registered Customer. In order to receive the discount, it is required that the respective Clearing Member has set up a separate internal margin account with Eurex Clearing AG and assigned the relevant accounts of

the respective RC Transaction Accounts Group and/or SC Transaction Accounts Group to it for the purpose of a calculating the discounts (such account hereinafter referred to as “ETD Collateral Incentive Pool”). Such discount will also be granted with respect to Eligible Margin Assets in the form of cash provided as cover for OTC Interest Rate Derivatives Transactions booked on accounts within a RC Transaction Accounts Group, a SC Transaction Accounts Group or on a ICM Transaction Account of a Registered Customer, provided that the respective Registered Customer or Specified Client is also active in Eurex Transactions under the same member ID/in the same account and both Transaction Types, OTC Interest Rate Derivatives Transactions and Eurex Transactions, are allocated to the same ETD Collateral Incentive Pool. For the avoidance of doubt, under these circumstances it is permissible that a single RC Own Account or SC Account be assigned to the separate internal margin account, notwithstanding Chapter I Part 2 Subpart C Number 4.2 (iii) of the Clearing Conditions of Eurex Clearing AG.

ECAG principally reserves the right to charge a lower fee.

If the Clearing Member has chosen to use a Settlement Bank for payments in EUR or CHF pursuant to Chapter I Part 1 Number 2.1.2 (4) (b) (ff) of the Clearing Conditions of Eurex Clearing AG, a fee shall be charged per Clearing Member as specified below.

The settlement bank fee of 0.001% will be charged on a monthly basis on the full amounts settled through the Settlement Bank to cover cash obligations according to Chapter I Part 1 Number 1.4.1 of the Clearing Conditions of Eurex Clearing AG and is determined according to the corresponding clearing currency (“Settlement Bank Fee”). A monthly minimum Settlement Bank Fee (Floor) of EUR 3,000 (equivalent to CHF 3,300) shall apply per Clearing Member and shall be charged if a Settlement Bank is used for one or more currencies at least for one day of the respective calendar month.

## **9.2 Service Fees for Eligible Margin Assets in the Form of Securities**

For Eligible Margin Assets in the form of securities or book-entry securities (Wertrechte) delivered as cover, a fee in the corresponding clearing currency will be charged daily in the amount of 0.05 per cent p.a. if the ratio of Eligible Margin Assets in the form of cash to the margin requirements is equal to or exceeds 30:100, 0.075 per cent p.a. if the ratio of Eligible Margin Assets in the form of cash to the margin requirements is between 20~~45~~:100 and 29.99:100, and 0.10 per cent p.a. plus a concentration add-on of 0.10 per cent p.a., if the ratio of Eligible Margin Assets in the form of cash to the margin requirements is between 0:100 and 19~~4~~.99:100.

The following is not part of the calculation basis, hence no fees will be charged for:

- a) Eligible Margin Assets in the form of securities or book-entry securities (Wertrechte) recorded in the margin accounts whose delivery is not required to cover the respective margin requirements,
- b) Eligible Margin Assets in the form of securities or book-entry securities (Wertrechte) delivered as cover for margin requirements determined for OTC Interest Rate Derivative Transactions relating to an account within an ICM Transaction Accounts Group of a Registered Customer, an account within an RC

**Price List of Eurex Clearing AG**

Transaction Accounts Group or an account within an SC Transaction Accounts Group, provided that (i) OTC Interest Rate Derivatives Transactions are booked on each of such accounts only and (ii) the respective Clearing Member has set up a separate internal margin account for an SC Transaction Accounts Group with Eurex Clearing AG and allocated the respective accounts of such SC Transaction Accounts Group to it for the purpose of calculating the discounts (OTC Collateral Incentive Pool). For the avoidance of doubt, under these circumstances it is permissible that a single SC Account be assigned to the separate internal margin account, notwithstanding Chapter I Part 2 Subpart C Number 4.2 (iii) of the Clearing Conditions of Eurex Clearing AG.

Eurex Clearing AG grants a discount of 50 per cent on the fee with respect to Eligible Margin Assets in the form of securities or book-entry securities (Wertrechte) provided as cover on Basic Clearing Member Own Accounts (as defined in Chapter I Part 5 Number 5.1 of the Clearing Conditions of Eurex Clearing AG) and for Eurex Transactions and OTC Interest Rate Derivatives Transactions booked on an account within a RC Transaction Accounts Group or a SC Transaction Accounts Group or on a ICM Transaction Account of a Registered Customer. In order to receive the discount, it is required that the respective Clearing Member has set up the ETD Collateral Incentive Pool. For the avoidance of doubt, under these circumstances it is permissible that a single RC Own Account or SC Account be assigned to the separate internal margin account notwithstanding Chapter I Part 2 Subpart C Number 4.2 (iii) of the Clearing Conditions of Eurex Clearing AG.

For Eligible Margin Assets in the form of securities or book-entry securities (Wertrechte) which are delivered through the GC Pooling re-use functionality, a fee in the corresponding clearing currency will be charged daily in the amount of 0.03 per cent p.a. The calculation of the fee will be performed act / 365 based on the value of the Eligible Margin Assets in the form of securities or book-entry securities (Wertrechte) delivered to cover margin requirements which are recorded in the respective internal margin account (Clearing Conditions of Eurex Clearing AG, Chapter 1 Part 2 Number 4.2 and Part 6 Number 5.3), the Segregated Internal Margin Account (Clearing Conditions of Eurex Clearing AG, Chapter 1 Part 3 Subpart A Number 4.1.2), the Internal Net Omnibus Margin Account (Clearing Conditions of Eurex Clearing AG, Chapter 1 Part 4 Number 4.2) and the Internal FCM Client Margin Accounts (Clearing Conditions of Eurex Clearing AG, Chapter 1 Part 5 Number 3.3) of the Clearing Member/Basis Clearing Member/ OTC IRS FCM Clearing Member.

Therefore,

- a) ~~Eligible Margin Assets in the form of securities or book-entry securities (Wertrechte) recorded in the margin accounts whose delivery is not required to cover the respective margin requirements,~~
- b) ~~margin requirements determined for OTC Interest Rate Derivative Transactions relating to Registered Customers~~

~~are not part of the calculation basis.~~

### **9.3 Service Fees for intra-day Exchange of Eligible Margin Assets**

In accordance with the specifications determined by ECAG for an intra-day exchange of Eligible Margin Assets in the form of cash as deposited for Eligible Margin Assets in the form of securities or book-entry securities (Wertrechte) respectively the intra-day exchange of Eligible Margin Assets in the form of securities or book-entry securities (Wertrechte) as deposited for Eligible Margin Assets in the form of securities or book-entry securities (Wertrechte) other than those deposited, ECAG shall charge a service fee in the amount of EUR 50.00 or CHF 80.00 for each such exchange.

The respective service fees shall be charged without turnover tax.

### **9.4 Service Fees for Default Fund Contributions**

For -Default Fund Contributions in the form of cash Number 9.1 applies *mutatis mutandis, provided that discounts will not be granted.*

For Default Fund Contributions in the form of securities Number 9.2 applies *mutatis mutandis, provided that discounts will not be granted.* The calculation of the fee will thereby be performed act / 365 based on the value of the entire Contributions in the form of securities or book-entry securities (Wertrechte) which are recorded on the internal Default Fund account (i.e. including any Excess Contribution) and instead of the ratio of Eligible Margin Assets in the form of cash to the margin requirement, the ratio of the Contribution in the form of cash amounts to the respective Contribution requirement to the Default Fund is applicable.

### **9.5 Service Fees for Funds provided for the Fulfilment of Own Funds or equivalent Regulatory Capital Requirements**

For funds in the form of cash provided for the fulfilment of own funds or equivalent regulatory capital requirements Number 9.1 applies *mutatis mutandis, provided that discounts will not be granted.*

For funds in the form of securities provided for the fulfilment of own funds or equivalent regulatory capital requirements, no service fees are charged.

[...]

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