

Eurex Clearing Circular 037/19

Introduction of Settled-to-Market Model for client-related OTC Interest Rate Derivative Transactions; amendments to the Clearing Conditions of Eurex Clearing AG

Summary

Eurex Clearing AG (Eurex Clearing) amends the Clearing Conditions of Eurex Clearing (Clearing Conditions) to extend the scope of the Settled-to-Market (STM) model to OTC Interest Rate Derivative Transactions qualifying as Client-Related Transactions.

The amended sections of the Clearing Conditions, as decided by the Executive Board of Eurex Clearing, are attached to this circular.

The amendments to the Clearing Conditions will come into effect on **2 May 2019**.

Attachment:

- Amended section of Chapter VIII of the Clearing Conditions

Date: 5 April 2019

Recipients:

All Clearing Members, Basic Clearing Members, Disclosed Direct Clients of Eurex Clearing AG, other affected contractual parties and vendors

Authorized by:

Heike Eckert

Target group:

- All departments

Related Eurex Clearing circular:

120/17

Contact:

Your Key Account Manager Clearing,
[clearing.services-
admission@eurexclearing.com](mailto:clearing.services-admission@eurexclearing.com)



Introduction of Settled-to-Market Model for client-related OTC Interest Rate Derivative Transactions; amendments to the Clearing Conditions of Eurex Clearing AG

Eurex Clearing expands its EurexOTC Clear Service portfolio by making the Settled-to-Market (STM) model available to client-related OTC Interest Rate Derivative Transactions. The STM model, which was introduced in 2017 as an alternative contract model for proprietary OTC Interest Rate Derivative Transactions of Clearing Members, will be extended in scope to client accounts of the Clearing Member. All accounts of Disclosed Clients (Basic Disclosed Clients and Disclosed Clients with System Access) as well as accounts of undisclosed clients will be eligible for a conversion to STM.

As described in Eurex Clearing circular 120/17, STM transactions are structured as follows:

- I. All of the outstanding transaction exposure arising from such contracts will be fully and finally settled on a daily basis.
- II. The terms of the relevant OTC Interest Rate Derivative Transactions will be reset daily so that the market value of such contracts will be zero. The economics of such transaction will not be affected by the switch to the STM model.

The default setting for client accounts will continue to be Collateralised-to-Market (CTM). For switching to STM, the Clearing Member needs to request the STM conversion of one or more of his client accounts. Upon conversion to STM, all outstanding and newly cleared OTC Interest Rate Derivative Transactions booked in a converted account will be reported as STM transactions to the Clearing Member and to the respective client (if the client has report access). For that purpose, the existing field "VMgnClassification" in the Variation Margin Report (CC203) shows whether a transaction is classified as STM or CTM.

The conversion of client accounts to STM is optional and can be requested by the Clearing Member as of 2 May 2019. Clearing Members interested in converting any of their client accounts to STM should get in contact with their Key Account Manager Clearing. Furthermore, the process for setting up new client accounts will be enhanced so that it will be possible to select STM already during onboarding.

The following provisions of the Clearing Conditions will be amended as outlined in the attachment to reflect the changes:

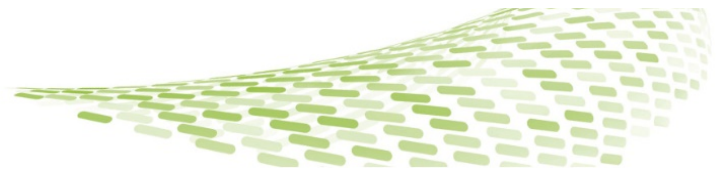
- Chapter VIII Part 1 Number 2.1.4.

The amendments mentioned above will become effective on 2 May 2019. 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 under the following link:

Resources > Rules and Regulations > Clearing Conditions

The changes and amendments to the legal framework of Eurex Clearing AG, published by this circular are deemed accepted by each affected contractual party of Eurex Clearing AG, unless the respective contractual party objects by written notice to Eurex Clearing AG within the first ten (10) Business Days after publication. Any ordinary right of Eurex Clearing AG to terminate the respective contract (including a Clearing Agreement, if applicable) shall remain unaffected.

Unless the context requires otherwise, terms used and not otherwise defined in this circular shall have the meaning ascribed to them in the Clearing Conditions.



If you have any questions or need further information, please contact your Key Account Manager Clearing,
e-mail: clearing.services-admission@eurexclearing.com.

5 April 2019

Chapter VIII of the Clearing Conditions of Eurex Clearing AG

Clearing of OTC Interest Rate Derivative Transactions, OTC FX Transactions and OTC XCCY Transactions

As of 02.05.2019

AMENDMENTS ARE MARKED AS FOLLOWS:

INSERTIONS ARE UNDERLINED

DELETIONS ARE CROSSED OUT

[...]

Part 2 Clearing of OTC Interest Rate Derivative Transactions

2.1 General Provisions

[...]

2.1.4 CTM Interest Rate Derivative Transactions and STM Interest Rate Derivative Transactions

- (1) A Clearing Member may, by way of an IRS STM Election, elect that all (but not some only) of ~~its~~ the STM Eligible Interest Rate Derivative Transactions under the relevant Standard Agreement shall be cleared as STM Interest Rate Derivative Transactions. If the STM Eligible Interest Rate Derivative Transactions under the relevant Standard Agreement for which an IRS STM Election is made by the Clearing Member relate to a Disclosed Direct Client which has entered into a Clearing Agreement with the Clearing Member and Eurex Clearing AG, the Clearing Member, by submitting the IRS STM Election to Eurex Clearing AG, also represents and warrants by way of an independent guarantee and irrespective of fault (*selbständiges, verschuldensunabhängiges Garantieverprechen*) to Eurex Clearing AG that the respective Disclosed Direct Client has agreed that the respective STM Eligible Interest Rate Derivative Transactions shall be cleared as STM Interest Rate Derivative Transactions.

____ In the case of Existing STM Eligible Interest Rate Derivative Transactions, the CTM Interest Rate Derivative Transactions shall be established as STM Interest Rate Derivative Transactions on the IRS STM Effective Date pursuant to Paragraph (2).
[...]

- (2) If an IRS STM Election is made, all Existing STM Eligible Interest Rate Derivative Transactions under the relevant Standard Agreement shall be amended on the IRS STM Effective Date as follows:

[...]

- (6) For the purposes of this Chapter VIII,

[...]

(b) **“Existing STM Eligible Interest Rate Derivative Transaction”** means a CTM Interest Rate Derivative Transaction that ~~is an Own Transaction and~~ was created as a CTM Interest Rate Derivative Transaction between the Clearing Member and Eurex Clearing by way of novation prior to the IRS STM Election.

(c) **“Original STM Eligible Interest Rate Derivative Transaction”** means, ~~an Own Transaction that is an~~ OTC Interest Rate Derivative Transaction ~~and that is~~ created by way of novation pursuant to Part 1 Number 1.2.1.

[...]

(e) **“IRS STM Election”** means the election by the Clearing Member that all (but not some only) ~~of its Own Transactions which are its~~ OTC Interest Rate Derivative Transactions under the relevant Standard Agreement shall be Settled-to-Market.

[...]

(g) **“Transfer STM Eligible Interest Rate Derivative Transaction”** means, an ~~Own Transaction that is an~~ OTC Interest Rate Derivative Transaction and is created by way of novation pursuant to Number 2.7 in connection with Chapter I Part 1 Number 1.2.2 Paragraph (5) (c).

(7) If, in case of a default of a Clearing Member, STM Interest Rate Derivative Transactions are ported to a Replacement Clearing Member by way of assumption of contract (*Vertragsübernahme*) or by way of immediate re-establishment of the Transactions in accordance with the porting provisions of Chapter I applicable to the relevant Standard Agreement, and the relevant Replacement Clearing Member does not support the IRS STM Election with regard to the relevant Standard Agreement, as of the porting becoming effective, the Transactions shall be amended to become CTM Interest Rate Derivative Transactions and instead of the provisions applicable to STM Interest Rate Derivative Transactions the provisions applicable to CTM Interest Rate Derivative Transactions shall apply to the Transactions.

[...]
