EC eurex clearing

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No. 074/2019

Extension of the LSOC service offering of Eurex Clearing AG and amendments to the FCM Regulations

Eurex Clearing Circular 074/19 Extension of the LSOC service offering of Eurex Clearing AG and amendments to the FCM Regulations

1.   Introduction

This circular contains information with respect to the extension of Eurex Clearing's LSOC (Legally Segregated Operationally Commingled) service offering and amendments to the FCM Regulations of Eurex Clearing (FCM Regulations) regarding the following topics:

A.   Go-live of LSOC Without Excess

B.   Extension of the swaps product currencies supported under the LSOC-models

C.   Extension of fee waivers

The extension of the service offering and the amendments to the FCM Regulations will become effective as of **19 August 2019.**

2.   Required actions

There are no required actions for the Participants.

3.   Details of the initiative

A.   Go-live of LSOC Without Excess

In December 2018, Eurex Clearing launched its refined LSOC-framework which was functionality-wise limited to the offering of an LSOC-model requiring the daily submission of a Collateral Value Report (CVR) by the FCM Clearing Member, but also allowed the FCM Clearing Member providing excess margin for each FCM Clearing Member (LSOC With Excess). Eurex Clearing is now extending its offering to a pure LSOC Without Excess-model.

Under LSOC Without Excess, the value of FCM Clearing Member collateral is equal to a customer's (Initial) Margin Requirement (MR) in accordance with CFTC (the Commodity Futures Trading Commission) Rule 22.15, and it is determined by Eurex Clearing with locking the Legally Segregated Value (LSV) in Eurex Clearing's systems at the start of each business day with a value that is equal to the FCM Clearing Member's margin requirement. Thus, FCM Clearing Members using the LSOC Without Excess-model are not required to send a Collateral Value Report (CVR), and are not allowed to post any excess margin for a specific FCM Clearing Member on a day-to-day basis.

Intraday, if the relevant margin requirement for the relevant FCM Clearing Member decreases below the LSV locked in Eurex Clearing's system, such excess margin is treated as belonging to that FCM Clearing Member. If the FCM Clearing Member's margin requirement increases above the LSV locked for such FCM Clearing Member, Eurex Clearing will firstly cover the margin shortfall with the FCM Buffer. In the event that the FCM Buffer is not sufficient to cover the shortfall, a margin call will be issued. If the margin call is met intraday, Eurex Clearing will increase the LSVs of the customers that generated the call.

For the end-of-day processing, Eurex Clearing introduces a different handling of the FCM Buffer under the LSOC Without Excess-model as compared to the LSOC With Excess-model: Eurex Clearing compares the values of all individual LSVs with the relevant margin requirement. The FCM Buffer is considered and transferred to cover shortfalls accordingly. If the value of the FCM Buffer is not sufficient, a margin call is issued for the outstanding value of the shortfalls.

Under the FCM Regulations, LSOC Without Excess was already introduced with the initial launch. In order to reflect the handling of the FCM Buffer and to clarify the processes related to the issuance of margin calls, the following provisions of the FCM Regulations will be amended as outlined in the Attachment:

- Chapter I Numbers 6.3.1, 6.4.2, 6.4.3, 6.5.3, 6.5.4

B.   Extension of the swaps product currencies offered under LSOC

The initial launch of LSOC only covered a limited swaps product currency scope, namely EUR, GBP and USD. The three product currencies were introduced on a LSOC-specific end-of-day settlement timeline, i.e. debit instructions are sent out at approximately 09:00 CET and they have to be funded by 10:00 CET at the latest.

Eurex Clearing is now extending the LSOC offering by CHF, DKK, JPY, NOK, and SEK denominated swaps products.

CHF (T+1 currency) will be introduced on the LSOC-specific timeline, whereas DKK, JPY, NOK and SEK (T+2 currencies) will be supported on Eurex Clearing's standard end-of-day settlement timeline. All relevant banks within Eurex Clearing's payment bank infrastructure can be used. For more information, please refer to the following link on the Eurex Clearing website www.eurexclearing.com:

Collateral management > Cash Collateral

C.   Extension of fee waivers

With Eurex Clearing circular 072/18, Eurex Clearing announced the introduction of the renewed LSOC framework as well as several fee waivers applying to FCM Clearing Members using LSOC, namely:

- Fees for granting of a clearing license and admission as an FCM Clearing Member (No. 1 (1) (a) of the Price List of Eurex Clearing AG)
- Annual fees for the license as an FCM Clearing Member (No. 1 (1) (b) of the Price List of Eurex Clearing AG)
- Fees relating to an audit of an FCM Clearing Member (Chapter I, No. 2.3 (8) of the FCM Regulations).

All fee waivers will be maintained until further notice, except for fees relating to an audit of an FCM Clearing Member. Here, already admitted FCM Clearing Members will be charged for all secondary and subsequent audit activities. The costs for the initial risk assessment will remain waived.

The extension of the service offering as well as the corresponding amendments to the FCM Regulations will become effective on 19 August 2019.

As of the effective date, the full version of the amended FCM Regulations will be available for download on the Eurex Clearing website www.eurexclearing.com under the following link:

Resources > Rules and Regulations

Unless the context requires otherwise, terms used and not otherwise defined in this circular shall have the meaning ascribed to them in the FCM Regulations of Eurex Clearing AG.

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.

Attachment:

- Amended sections of the FCM Regulations, Chapter I Number 6.3.1, 6.4.2, 6.4.3, 6.5.3, 6.5.4

Recipients:	All FCM Clearing Members of Eurex Clearing AG
Target groups:	Front Office/Trading, Middle + Back Office, IT/System Administration, Auditing/Security Coordination
Contact:	client.services@eurexclearing.com
Related circular:	Eurex Clearing circular 072/18
Web:	www.eurexclearing.com
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Chapter I: Clearing Model Related Provisions

FCM Regulations of Eurex Clearing AG

As of 19.08.2019

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THE FCM REGULATIONS WILL BE AMENDED.

AMENDMENTS ARE MARKED AS FOLLOWS:

INSERTIONS ARE UNDERLINED,

DELETIONS ARE CROSSED OUT.

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Chapter I   Clearing Model Related Provisions

[...]

6.3   Provisions Common to Both LSOC Models

An FCM Clearing Member may clear FCM Client Transactions for an FCM Client in accordance with either the LSOC Without Excess Model or the LSOC With Excess Model (together, the "**LSOC Models**").

The following provisions in this Number 6.3 apply regardless of the LSOC Model that the FCM Clearing Member has elected with respect to the relevant FCM Client.

6.3.1   Election of applicable LSOC Model

(1) Prior to the establishement of each FCM Client Margin Account ~~An FCM Clearing Member must specify~~ within the systems of Eurex Clearing AG, the FCM Clearing Member must specify ~~for each FCM Client Margin Account~~ whether such FCM Client Margin Account shall be established under the LSOC Without Excess Model or the LSOC With Excess Model ("**LSOC Model Election**") by submitting a notice in form and substance satisfactory to Eurex Clearing ("**LSOC Model Election Notice**").

If the FCM Clearing Member wants to alter its LSOC Model Election with respect to a FCM Client Margin Account after its establishment, the FCM Clearing Member shall submit a new LSOC Model Election Notice to Eurex Clearing AG.

(2) ~~Eurex Clearing AG reserves the right to reject the election of an FCM Clearing Member to establish an FCM Client Transaction Account (and corresponding FCM Client Margin Sub-Account) under the LSOC With Excess Model in its own reasonable discretion. Any such FCM Client Transaction Account (and corresponding FCM Client Margin Sub-Account) shall be established and maintained in accordance with the LSOC Without Excess Model.~~

[...]

6.4 LSOC Without Excess Model

[...]

6.4.2 FCM Client Buffer

[...]

(3) ~~Eurex Clearing AG will calculate the Margin Requirement for each FCM Client Transaction Account for the end-of-day settlement cycle and issue a Margin Call for the corresponding FCM Client Margin Sub-Account without regard to any Encumbered FCM Client Buffer applied to such FCM Client Margin Sub-Account on the Business Day to which the end-of-day Margin Call applies. The FCM Clearing Member may (with the consent of Eurex Clearing AG) elect to use the FCM Client Buffer to meet (in whole or in part) the Margin Call, in which case the FCM Client Buffer becomes part of the FCM Client Sub-Account Balance and no longer constitutes Encumbered FCM Client Buffer or FCM Client Buffer.~~

6.4.3 Margin Calls; Application of FCM Client Buffer

[…]

(2) Eurex Clearing AG will issue a Margin Call with respect to an FCM Client Transaction Account at any time prior to the end of a Business Day provided that ~~if~~ the following requirements are met:

[...]

If such requirements are met, Eurex Clearing AG will exercise the Margin Call without regard to any FCM Client Buffer. <u>Eurex Clearing AG will book the value of the Eligible Margin Assets Actually Delivered by the FCM Clearing Member due to a Margin Call into the relevant FCM Client Margin Sub-Account(s) covered by the Margin Call.</u>

(3) ~~As provided in Number 6.4.2 Paragraph (3), Eurex Clearing AG will calculate the Margin Requirement for each FCM Client Transaction Account for the end-of-day settlement cycle and issue a Margin Call for the corresponding FCM Client Margin Sub-Account without regard to any Encumbered FCM Client Buffer applied to such FCM Client Margin Sub-Account on the Business Day to which the end-of-day Margin Call applies. If the FCM Clearing Member (with the consent of Eurex Clearing AG) elects to use the Encumbered FCM Client Buffer to meet (in whole or in part) the Margin Call, the Encumbered FCM Client Buffer becomes part of the FCM Client Sub-Account Balance and no longer constitutes Encumbered FCM Client Buffer or FCM Client Buffer.~~ <u>In the end-of-day settlement cycle, Eurex Clearing AG shall use</u>

the FCM Client Buffer to meet (in whole or in part) any Margin Call Eurex Clearing AG determines with respect to any FCM Client Transaction Account(s).

(a) In case Eurex Clearing AG determines an FCM Client Margin Shortfall with respect to one or more FCM Client Transaction Account(s) linked to the same FCM Client Margin Account, Eurex Clearing AG will not issue a Margin Call with respect to such FCM Client Transaction Account(s) provided that the sum of all FCM Client Margin Shortfalls determined with respect to the same FCM Client Margin Account does not exceed the balance of the FCM Client Buffer Sub-Account of such FCM Client Margin Account.

Eurex Clearing AG will book the value of the Eligible Margin Assets needed to cover the FCM Client Margin Shortfall(s) with respect to the relevant FCM Client Transaction Account(s) into the relevant FCM Client Margin Sub-Account(s) and will reduce the FCM Client Buffer Sub-Account accordingly.

(b) In case Eurex Clearing AG determines an FCM Client Margin Shortfall with respect to one or more FCM Client Transaction Account(s) linked to the same FCM Client Margin Account and Eurex Clearing AG determines that the sum of all FCM Client Margin Shortfalls determined with respect to the same FCM Client Margin Account exceeds the balance of the FCM Client Buffer Sub-Account of such FCM Client Margin Account, Eurex Clearing AG will issue a Margin Call with respect to such FCM Client Transaction Account(s) in an amount equal to the difference of (i) the sum of all FCM Client Margin Shortfalls and (ii) the balance of the FCM Client Buffer Sub-Account.

Eurex Clearing AG will book the value of the Eligible Margin Assets Actually Delivered by the FCM Clearing Member due to a Margin Call (including any FCM Client Buffer needed to cover the relevant FCM Client Margin Shortfall) into the relevant FCM Client Margin Sub-Account(s) and will reduce the FCM Client Buffer Sub-Account to zero.

[…]

(6) Eurex Clearing AG will book the value of the Eligible Margin Assets Actually Delivered by the FCM Clearing Member due to a Margin Call into the relevant FCM Client Margin Sub-Account(s) covered by the Margin Call.

[…]

6.5   LSOC With Excess Model

[…]

[…]

6.5.3   **FCM Client Buffer**

(1)   If Eurex Clearing determines at any time prior to the end of a Business Day that the applicable Margin Requirement with respect to an FCM Client Transaction Account exceeds the FCM Client Margin Sub-Account Balance (which with respect to this Number 6.5 includes the related FCM Client Assumed Allocation Sub-Account Balance as a component) for such FCM Client Transaction Account ("**FCM Client Margin Shortfall**"), Eurex Clearing AG is permitted to apply any portion of the FCM Client Buffer carried in the FCM Client Buffer Sub-Account in the same FCM Client Margin Account as the FCM Client Margin Sub-Account to satisfy the FCM Client Margin Shortfall (the "**Encumbered FCM Client Buffer**").

(2)   Eurex Clearing AG will calculate the Margin Requirement for each FCM Client Transaction Account for the end-of-day settlement cycle and issue a Margin Call for the corresponding FCM Client Margin Sub-Account without regard to any Encumbered FCM Client Buffer applied to such FCM Client Margin Sub-Account on the Business Day to which the end-of-day Margin Call applies. ~~The FCM Clearing Member may (with the consent of Eurex Clearing AG) elect to use the FCM Client Buffer to meet (in whole or in part) the Margin Call, in which case the FCM Client Buffer becomes part of the FCM Client Assumed Allocation Sub-Account and no longer constitutes Encumbered FCM Client Buffer or FCM Client Buffer.~~

6.5.4   **Margin Calls; Application of FCM Client Buffer**

[…]

(2)   Eurex Clearing AG will issue a Margin Call with respect to an FCM Client Transaction Account at any time prior to the end of a Business Day provided that ~~if~~ the following requirements are met:

[...]

If such requirements are met, Eurex Clearing AG will exercise the Margin Call without regard to any FCM Client Buffer. Eurex Clearing AG will initially book the value of the Eligible Margin Assets Actually Delivered by the FCM Clearing Member due to a Margin Call into the relevant FCM Client Assumed Allocation Sub-Account.

(3) ~~As provided in Number 6.5.3 Paragraph (2), Eurex Clearing AG will calculate the Margin Requirement for each FCM Client Transaction Account for the end-of-day settlement cycle and issue a Margin Call for the corresponding FCM Client Margin Sub-Account without regard to any Encumbered FCM Client Buffer applied to such FCM Client Margin Sub-Account on the Business Day to which the end-of-day Margin Call applies. If the FCM Clearing Member (with the consent of Eurex Clearing AG) elects to use the Encumbered FCM Client Buffer to meet (in whole or in part) the Margin Call, the Encumbered FCM Client Buffer becomes part of the FCM Client Sub-Account Balance and no longer constitutes Encumbered FCM Client Buffer or FCM Client Buffer.~~ In the end-of-day settlement cycle, Eurex Clearing AG will issue a Margin Call with respect to an FCM Client Transaction Account, if Eurex Clearing determines there is an FCM Client Margin Shortfall with respect to such FCM Client Transaction Account without regard to any FCM Client Buffer.

Eurex Clearing AG will initially book the value of the Eligible Margin Assets Actually Delivered by the FCM Clearing Member due to a Margin Call into the relevant FCM Client Assumed Allocation Sub-Account(s).

[…]

(6) ~~Eurex Clearing AG will initially book the value of the Eligible Margin Assets Actually Delivered by the FCM Clearing Member due to a Margin Call into the relevant FCM Client Assumed Allocation Sub-Account(s).~~

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