

25 Apr 2024
Eurex Clearing

Amendments to the Clearing Conditions and FCM Default Rules of Eurex Clearing AG - Consultation

Eurex Clearing Circular 029/24 Amendments to the Clearing Conditions and FCM Default Rules of Eurex Clearing AG - Consultation

1. Introduction

This circular contains information with respect to the service offering of Eurex Clearing AG (Eurex Clearing) and introduces amendments to the Clearing Conditions of Eurex Clearing AG (Clearing Conditions) and the FCM Default Rules of Eurex Clearing AG (FCM Default Rules) regarding the following topics:

- A. Introduction of a new juniorisation scheme for Interest Rate Derivative Transactions and OTC NDF Transactions in DM Auctions, and
- B. Correction of a reference within the exemption provisions regarding Public Entities

The amendments to the Clearing Conditions are subject to a consultation process (Consultation). The Consultation will end with the expiry of **27 May 2024** (Consultation Period). The planned effective date for these amendments is **1 July 2024**, depending on the outcome of the Consultation which will be communicated in a separate Eurex Clearing Circular.

Clearing Members, ISA Direct Clearing Members, Disclosed Direct Clients, FCM Clearing Members, vendors and other affected contractual parties should take the amendments to the Clearing Conditions and FCM Default Rules into consideration.

The amendments to the Clearing Conditions are subject to a Consultation which will end with the expiry of **27 May 2024**.

Eurex Clearing herewith invites all Affected Customers to submit comments on the proposed changes and amendments within the Consultation Period.

3. Details

A. Introduction of a new juniorisation scheme for Interest Rate Derivative Transactions and OTC NDF Transactions in DM Auctions

According to Eurex Clearing's current juniorisation scheme applicable to DM Auctions relating to Interest Rate Derivative Transactions and OTC NDF Transactions (so-called single unit/one-way liquidation auctions), Bids provided by Mandatory Participants are classified as "sufficient", "medium" or "insufficient", always in relation to a distance parameter from the winning bid in line with the formula shown below:

CURRENT JUNIORISATION THRESHOLD

Bid x is **sufficient** if $x \geq \text{winning bid} - (0.5 * IM)$

Bid x is **medium** if $x < \text{winning bid} - (0.5 * IM)$ and $x \geq \text{winning bid} - (1.5 * IM)$

Bid x is **insufficient** if $x < \text{winning bid} - (1.5 * IM)$

After consistent feedback received from Clearing Members and unreasonable results obtained during Default Management Process (DMP) fire drills, Eurex Clearing aims now to improve and simplify the current juniorisation scheme by introducing two additional safeguards reducing the risk of "unfair" juniorisation of Clearing Members:

- i. As a first correction, Eurex Clearing's own evaluation of mid-market value around the bidding time is introduced as minimum reference to protect participants who have priced the portfolio in line with the fair value from getting juniorised in case the winner has placed a bid significantly through the fair value.

the risk premium.

Thus, Eurex Clearing plans to replace the current juniorisation scheme with the formula below:

PROPOSED NEW JUNIORISATION THRESHOLD

Bid x is **sufficient** if $x \geq \text{Min (winning bid, ECAG's mid-market value)} - \text{max (IM, €3 mn)}$

Bid x is **insufficient** if $x < \text{Min (winning bid, ECAG's mid-market value)} - \text{max (IM, €3 mn)}$

To reflect the changes, the following provisions in the rulebooks of Eurex Clearing shall be amended as outlined in Attachments 1 and 2:

- ◆ Chapter I Part 1 Number 7.5.3 (4) of the Clearing Conditions and
- ◆ Number 4.3.3 of the FCM Default Rules

B. Correction of a reference within the exemption provisions regarding Public Entities

In Eurex Clearing Circular 007/24, Eurex Clearing introduced amendments to the exemption provisions regarding Public Entities under Chapter I Part 1 Number 2.1.3 of the Clearing Conditions.

Eurex Clearing missed to update a reference in the rule text, which is corrected with the proposed amendments outlined in Attachment 1. Public Entities qualifying as “public sector entities” within the meaning of Chapter I Part 1 Number 2.1.3 (1) (c) of the Clearing Conditions cannot be exempted from providing Contributions to the Default Fund or from the applicable margin requirement.

To reflect the change, the following provision in the Clearing Conditions shall be amended as outlined in Attachment 1:

- ◆ Chapter I Part 1 Number 2.1.3 (1)

Consultation with respect to the proposed amendments to the Clearing Conditions

Pursuant to Chapter I Part 1 Number 17 of the Clearing Conditions, the proposed amendments to the Clearing Conditions are subject to a

During the Consultation Period, comments on proposed changes or amendments shall be only submitted through a web-based commenting service for which a registration form is available on the Eurex Clearing website under the following link:

Find > Forms: Consultation Form

The form has to be duly signed and returned to Eurex Clearing via e-mail to SpecialProvisions@eurex.com, in order to obtain a User ID and Password together with a link for accessing the web-based commenting service.

To the extent that Eurex Clearing AG decides to implement any comments received during the Consultation, the so-amended version of the Clearing Conditions will be published after the Consultation.

The currently envisaged effective date of the changes is **1 July 2024**. However, after the Consultation Period, Eurex Clearing AG will issue a separate circular to announce the concrete date on which the proposed changes (as the case may be, implementing comments received during the Consultation) will come into effect.

This announcement will be made with at least 15 Business Days' notice (Regular Notification Period). However, if Eurex Clearing AG should receive a request for a Prolonged Notification Period from more than two Affected Customers during the Consultation Period, a Prolonged Notification Period as set out in the Clearing Conditions will be applied and Eurex Clearing AG will notify all affected parties accordingly.

Publication of amendments

As of the effective date, the full versions of the amended Clearing Conditions will be available for download on the Eurex Clearing website www.eurex.com/ec-en/ under the following link:

Rules & Regs > Eurex Clearing Rules and Regulations

The 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 prior to the relevant effective date(s) as stipulated in this circular. In case of an objection by the respective contractual party pursuant the preceding sentence, Eurex Clearing AG is entitled to terminate the respective contract (including a Clearing Agreement, if applicable). Instead of

Comments prevent the published amendments from becoming effective taking into account the interests of Eurex Clearing AG and all contractual parties.

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, as applicable.

Attachments:

- ◆ 1 – Amended sections of the Clearing Conditions of Eurex Clearing AG, effective 1 July 2024
- ◆ 2 – Amended sections of the FCM Default Rules of Eurex Clearing AG, effective 1 July 2024

Further information

Recipients: All Clearing Members, ISA Direct Clearing Members, Disclosed Direct Clients and FCM Clearing Members of Eurex Clearing AG, vendors and other affected contractual parties

Target groups: Front Office/Trading, Middle + Back Office, IT/System Administration, Auditing/Security Coordination

Contact: client.services@eurex.com

Web: www.eurex.com/ec-en/

Authorized by: Dmitrij Senko

Further information

[↓ Attachment 1 to Eurex Clearing Circular 029/24](#)



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Chapter I of the Clearing Conditions of Eurex Clearing AG

General Provisions

As of 01.07.2024

AMENDMENTS ARE MARKED AS FOLLOWS:

INSERTIONS ARE UNDERLINED;

DELETIONS ARE CROSSED OUT

[...]

Part 1 General Clearing Provisions

[...]

2 Clearing Members

2.1 Clearing License

[...]

2.1.3 Prerequisites for Public Entities

[...]

(2) [...]

Public sector entities Applicants within the meaning of Paragraph (1) ~~(ce)~~ may only be exempted from the requirements mentioned in (a), (b) and (e).

[...]

7 Termination Rules with respect to the Clearing Member

[...]

7.5 Default Management Process

[...]

7.5.3 Establishment of Transactions by way of independent trades or by conducting DM Auctions

[...]

(4) [...]

- (i) If the relevant DM Auction Transactions qualify as OTC Interest Rate Derivative Transactions or as Interest Rate Derivative Transactions, DM Auctions will be conducted with respect to one Auction Unit per currency in which the relevant OTC Interest Rate Derivative Transactions or the relevant Interest Rate

Derivative Transactions are denominated; each Auction Unit will generally consist of all DM Auction Transactions denominated in the same currency.

____ If the relevant DM Auction Transactions qualify as OTC NDF Transactions, DM Auctions will be conducted with respect to one Auction Unit per NDF Currency Pair applicable to the relevant OTC NDF Transactions; each Auction Unit will generally consist of all DM Auction Transactions to which the same NDF Currency Pair applies.

- (ii) Each Mandatory Participant is obliged to submit one Mandatory Bid for the respective Auction Unit with respect to all currencies such Mandatory Participant holds a Clearing License for, subject to the DM Auction Rules.

Eurex Clearing AG will classify the Mandatory Bids into one of the two following categories:

- (a) The Mandatory Bid qualifies as **“Sufficient Bid”**, if the Mandatory Bid is equal to or higher than the Juniorisation Threshold~~difference between such Mandatory Bid and the winning Bid with respect to the relevant Auction Unit (the “Sufficient Bid Threshold”)~~ is equal to or smaller than the product of (i) 0.5 and (ii) the Initial Margin requirement for all OTC Interest Rate Derivative Transactions or all OTC NDF Transactions, as applicable, in the relevant Auction Unit (the **“Auction Unit Margin Amount”**).
- (b) The Mandatory Bid qualifies as **“Insufficient Bid”**, if the Mandatory Bid is smaller than the Juniorisation Threshold~~difference between such Mandatory Bid and the winning Bid with respect to the relevant Auction Unit (the “Insufficient Bid Threshold”)~~ is larger than the product of (i) 1.5 and (ii) the Auction Unit Margin Amount.

“Juniorisation Threshold” means the amount determined by Eurex Clearing AG for the relevant Auction Unit, which is the difference of (i) the lower of (I) the winning Bid for the relevant Auction Unit or (II) the Mid-Market Value of all DM Auction Transactions forming part of the relevant Auction Unit, and (ii) the higher of (I) the Initial Margin requirement for all DM Auction Transactions forming part of the relevant Auction Unit or (II) the amount of EUR 3,000,000.

“Mid-Market Value” means the current market value of all DM Auction Transactions forming part of the relevant Auction Unit as determined by Eurex Clearing AG immediately prior to the relevant Commencement Time as specified in the Specific Auction Terms of the relevant DM Auction. The calculation of the Mid-Market Value follows the same principles Eurex Clearing AG applies for the calculation of the daily valuation prices in accordance with the provisions under Chapter VIII Part 2 Number 2.1.6 and Part 5 Number 5.1.6 of the Clearing Conditions.

~~(c) The Mandatory Bid qualifies as “**Medium Bid**”, if the difference between such Mandatory Bid and the winning Bid with respect to the relevant Auction Unit is (i) larger than the Sufficient Bid Threshold and (ii) equal to or smaller than the Insufficient Bid Threshold.~~

~~[...]~~

~~(iv) If a Mandatory Participant submits a Medium Bid for the relevant Auction Unit in accordance with the DM Auction Rules during the relevant DM Auction, such Mandatory Participant qualifies as CM Non-Bidding Participant subject to the following provisions:~~

~~— If, following a Realisation Event with respect to the relevant Affected Clearing Member or the relevant Affected FCM Clearing Member (but not with respect to any other Realisation Event), Contributions of Non-Affected Clearing Members and/or Non-Affected FCM Clearing Members are realised, the Contributions of such CM Non-Bidding Participant with respect to the relevant Liquidation Group (in respect of all its capacities as Clearing Member and Clearing Agent, as applicable) submitting at least one Medium Bid shall be realised prior to the Contributions of the other Non-Affected Clearing Members and Non-Affected FCM Clearing Members in accordance with Number 6.2.1, up to an amount which shall be calculated by Eurex Clearing AG as follows: the difference between (i) the winning Bid minus the product of 0,5 and the Auction Unit Margin Amount and (ii) the respective Medium Bid, such difference divided by the Auction Unit Margin Amount and subsequently multiplied by the relevant Mandatory Participant’s Contributions.~~

~~— Any remainder of the Contributions of such CM Non-Bidding Participant submitting a Medium Bid shall be considered as Contributions of a Non-Affected Clearing Member that is not a CM Non-Bidding Participant.~~

~~(iv) [...]~~

~~(vi) [...]~~

~~(vii) [...]~~

[...]

FCM Default Rules of Eurex Clearing AG

As of 01.07.2024

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AMENDMENTS ARE MARKED AS FOLLOWS:

INSERTIONS ARE UNDERLINED;

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[...]

4 Default Management Process

[...]

4.3 Establishment of FCM Clearing Member Transactions by way of independent trades or by conducting DM Auctions

[...]

4.3.3 The following provisions apply to FCM Clearing Members in respect of DM Auctions that relate to Terminated FCM Clearing Member Transactions that are Interest Rate Derivative Transactions or to Terminated Clearing Member Transactions that are OTC Interest Rate Derivative Transactions:

[...]

- (3) Each FCM Mandatory Participant is obliged to submit one Bid (each a “**Mandatory Bid**”) for the respective Auction Unit with respect to all currencies for which such FCM Mandatory Participant holds an FCM Clearing License, subject to the DM Auction Rules.

“**Bid**” has the meaning assigned to such term in the DM Auction Rules.

Each Mandatory Bid is generally valid, and the highest valid Bid shall be accepted by Eurex Clearing AG as the winning Bid with respect to each Auction Unit.

Eurex Clearing AG will classify the Mandatory Bids into one of the two following categories:

- (a) The Mandatory Bid qualifies as “**Sufficient Bid**”, if the Mandatory Bid is equal to or higher than the Juniorisation Threshold, ~~the difference between such Mandatory Bid and the winning Bid with respect to the relevant Auction Unit (the “**Sufficient Bid Threshold**”) is equal to or smaller than the product of (i) 0.5 and (ii) the Initial Margin requirement for all DM Auction Transactions in the relevant Auction Unit (the “**Auction Unit Margin Amount**”).~~
- (b) The Mandatory Bid qualifies as “**Insufficient Bid**”, if the Mandatory Bid is smaller than the Juniorisation Threshold, ~~the difference between such Mandatory Bid and the winning Bid with respect to the relevant Auction Unit (the~~

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“**Insufficient Bid Threshold**”) is larger than the product of (i) 1.5 and (ii) the Auction Unit Margin Amount.

“**Juniorisation Threshold**” means the amount determined by Eurex Clearing AG for the relevant Auction Unit, which is the difference of (i) the lower of (I) the winning Bid for the relevant Auction Unit or (II) the Mid-Market Value of all DM Auction Transactions forming part of the relevant Auction Unit, and (ii) the higher of (I) the Initial Margin requirement for all DM Auction Transactions forming part of the relevant Auction Unit or (II) the amount of EUR 3,000,000.

“**Mid-Market Value**” means the current market value of all DM Auction Transactions forming part of the relevant Auction Unit as determined by Eurex Clearing AG immediately prior to the relevant Commencement Time as specified in the Specific Auction Terms of the relevant DM Auction. The calculation of the Mid-Market Value follows the same principles Eurex Clearing AG applies for the calculation of the daily valuation prices in accordance with the provisions under Chapter II Part 2 Number 2.1.6 of the FCM Regulations.

- (c) The Mandatory Bid qualifies as a “**Medium Bid**”, if the difference between such Mandatory Bid and the winning Bid with respect to the relevant Auction Unit is (i) larger than the Sufficient Bid Threshold and (ii) equal to or smaller than the Insufficient Bid Threshold.

[...]

- (5) If a FCM Mandatory Participant (i) submits a Medium Bid for the relevant Auction Unit in accordance with this Number 4.3.3 and the DM Auction Rules or (ii) if such FCM Mandatory Participant has appointed a Selected Auction Participant, its Selected Auction Participant submits a Medium Bid in accordance with this Number 4.3.3 and the DM Auction Rules, such FCM Mandatory Participant qualifies as FCM Non-Bidding Participant subject to the following provisions:

— If, following a Realization Event with respect to the relevant Affected Clearing Member or the relevant Affected FCM Clearing Member (but not with respect to any other Realization Event), Contributions of Non-Affected FCM Clearing Members and Non-Affected Clearing Members are realised, the Contributions of such FCM Non-Bidding FCM Clearing Member with respect to the relevant Liquidation Group submitting at least one Medium Bid (or for which any of their Selected Auction Participants has submitted a Selected Auction Participant Medium Bid) shall in such DM Auction be realised, in accordance with Number 3.2.1, prior to the Contributions of the other Non-Affected FCM Clearing Members and the other Non-Affected Clearing Members, up to an amount which shall be calculated by Eurex Clearing AG as follows: the difference between (i) the winning Bid minus the product of 0.5 and the Auction Unit Margin Amount and (ii) the respective Medium Bid (or Selected Auction Participant Medium Bid), such difference divided by the Auction Unit Margin Amount and subsequently multiplied by the relevant FCM Mandatory Participant’s Contributions.

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— Any remainder of the Contributions of the FCM Mandatory Participant submitting a Medium Bid (or whose Selected Auction Participant has submitted a Selected Auction Participant Medium Bid) shall be considered as Contributions of a Non-Affected FCM Clearing Member that is not a FCM Non-Bidding Participant.

— **"Selected Auction Participant Medium Bid"** means a Bid by a Selected Auction Participant that, if such Bid were a Mandatory Bid, would qualify as a Medium Bid.

(56) [...]

[...]
