



Eurex/KRX Link Member Readiness Guide

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Abstract

This document intends to provide an overview on the steps and processes that need to be taken to get ready for the Eurex/KRX Link.

This document has been prepared for all Eurex Members that would like to participate in this Eurex/KRX Link.

Keywords

Eurex, Eurex Clearing, Eurex/KRX Link, KRX, Link, Member Readiness

List of Abbreviations

CET	Central European Time
ISV	Independent Software Vendor
KRW	South Korean Won
KRX	Korea Exchange
KST	Korean Standard Time

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1 Introduction

Kospi 200 Options are the most heavily traded options contract worldwide. The Eurex/KRX Link was set up to make this contract tradable after Korean trading hours. Since 30 August 2010, Eurex and KRX have offered the Eurex KOSPI Product on the Eurex[®] system, so investors in Korea and all over the world can utilize their access to the Eurex trading platform to trade the contract.

The product is set up and traded as a futures-style option in the Eurex[®] system. Legally it is a futures contract which expires daily into a KOSPI 200 Option position at KRX prior to the KRX market opening. Therefore, the KOSPI 200 Option listed on KRX is legally the underlying for the Eurex KOSPI Product, although technically, the underlying (option series) is actually traded itself. The product is listed and priced in South Korean Won (KRW).

The product enables international investors and traders to access the KOSPI 200 Option market during core European and North American trading hours when the KRX market is closed.

The technical readiness of the Eurex/KRX Link was announced with Release 12.0. Therefore all technical descriptions can be found in the documentation for Release 12.0. Eurex Circular 128/2010, which announced the launch of the product, contains much of the relevant information, forms, and rule changes. This Member Readiness Guide is an updated version of the corresponding document distributed in Eurex Circular 128/2010.

For detailed information and guidance, please contact your Eurex Member Services & Admission Account Manager or the general helpdesk contact at

Tel.: +49 69 211-11700, marketsservices.membership@deutsche-boerse.com

2 How to Participate

In order to trade the Eurex KOSPI Product, Eurex Members are required to have at least one associated KRX Member. Eurex Members must provide Eurex with the KRX Member ID and name of the KRX Members who will establish the respective KOSPI 200 Option positions on KRX on the following trading day. When entering an order, quote or trade adjustment, Eurex Members must enter a 3-digit KRX Member ID and a maximum 9-character identification number, to identify the account at the KRX member, into the free-format text field *TEXT*. It is further recommended to contact the respective KRX broker regarding the confirmation of positions in the KOSPI 200 Option on KRX.

The three free-format text fields are also available for market makers (M-Account) via the Enhanced Transaction Solution interface.

In addition, the following wholesale trading functionalities are available for the Eurex KOSPI Product and can be tested in simulation:

- OTC Block Trade Facility
- Multilateral Trade Registration
- Strategy WizardSM

Non-Clearing Members need to ensure that their Clearing Member can clear the Eurex KOSPI Product. To access the Eurex KOSPI Product, Clearing Members need to:

- establish an account at Shinhan Bank in order to be able to settle cash obligations resulting from trading.
- make an additional contribution to the Eurex Clearing Fund.

The product can only be traded by Eurex Members who register with the application form "Application for Participation for the Trading of Eurex KOSPI Daily Futures contracts". With this form, Eurex Members provide Eurex with

- the KRX Member ID and name of the KRX Members with whom they have a relationship.
- confirmation that an agreement between the Eurex and KRX Member exists for the KRX Member to establish the option position(s) resulting from the Eurex KOSPI Product in the KRX system.
- confirmation that the Eurex Member is aware of pre-margining regulatory requirements in Korea and that they will be adhered to.

In addition to steps that need to be taken with Eurex, please contact your KRX broker and ISVs to ensure their readiness for this project.

2.1 Legal Framework

- Application for the Participation for Trading of Eurex KOSPI Daily Futures contract
- Application for the setup/deletion/change of clearer cash accounts and pledged securities

These forms are available on the Eurex website at:

www.eurexchange.com > Documents > Forms > Eurex/KRX Link

- Additional Clearing Fund contribution of an upfront fixed payment of EUR 250,000. The amount of the Clearing Fund contribution will be verified every quarter and adapted if necessary. It can be separated out of the existing Clearing Fund contribution of a CM if currently sufficient collateral is available.

For details and further information, please contact your Member Services & Admission Account Manager. The respective account manager can send all required forms and provide guidance through the registration process. As soon as all required forms and the Clearing Fund contribution by the respective clearing member have been provided to the exchange and been accepted, a setup confirmation will be provided to the Eurex Member.

2.2 Product Assignment

Once a Eurex Member is registered, the product will be set up for the Eurex Trading Member and respective Clearing Member by Eurex. Eurex Members can set up and assign the Eurex KOSPI Product as all other Eurex products.

Eurex Members can assign/deassign product groups using the *Product Assignment Maintenance* window of the Eurex security system. For further details regarding product assignment, please refer to the documentation "Eurex User Manual – System Security" on our website at

www.eurexchange.com > Member Section > Releases > Eurex 13.0 > Manuals > General System Overview

2.3 Reports

RPTCD090 "Overall Asset Summary" (already existing for Eurex Clearing Members only)

Note: This report was modified to display the product-specific Clearing Fund contribution for the Eurex KOSPI Product.

RPTCD009 "Daily Cash Transactions" (already exists for Eurex Clearing and Trading Members)

The report details cash transactions per transaction type and currency. It is useful for an overview of variation margin payments in KRW.

RPTCB090 "Premium Overall Summary" (already exists for Eurex Clearing and Trading Members)

The report details accumulated premiums by exchange and clearing member per currency.

RPTCB430 “KRX Position Report” (NEW Report)

For information purposes, the report RPTCB430 “KRX Position Report” displays acceptance/rejection of settlement information into the KRX system to establish the respective position in the KOSPI 200 Options at KRX. This report is created on a daily basis and can be subscribed to by all Eurex Members.

Eurex Members can subscribe to this report in the *Report Selection* window of the Eurex @X-tract Clearing GUI. For further details regarding subscribing to reports, please see the documentation “@X-tract Clearing User Guide” on our website at www.eurexchange.com > Member Section > Releases > Eurex 13.0 > Manuals > Functional Manuals

2.4 Settlement Account for KRW Payments

As the product is denominated in KRW, cash payments (i.e. variation margin and fees) need to be settled in KRW. Eurex Clearing, as the central counterparty, processes the payments in KRW resulting from variation margin (difference between trade price and settlement price) as well as fees. As this product is set up as an option, the variation margin appears as premium in the Eurex[®] system.

2.4.1 Account Requirement for KRW Payment Process

For the payment processing, Eurex Clearing has an account at Shinhan Bank, which serves as a payment bank for Eurex Clearing in this context. Therefore Clearing Members also need to have an account at Shinhan Bank so that Eurex Clearing can initiate payments through the Clearing Member’s account at Shinhan Bank. Each Clearing Member is considered separately and no netting of payment instructions takes place.

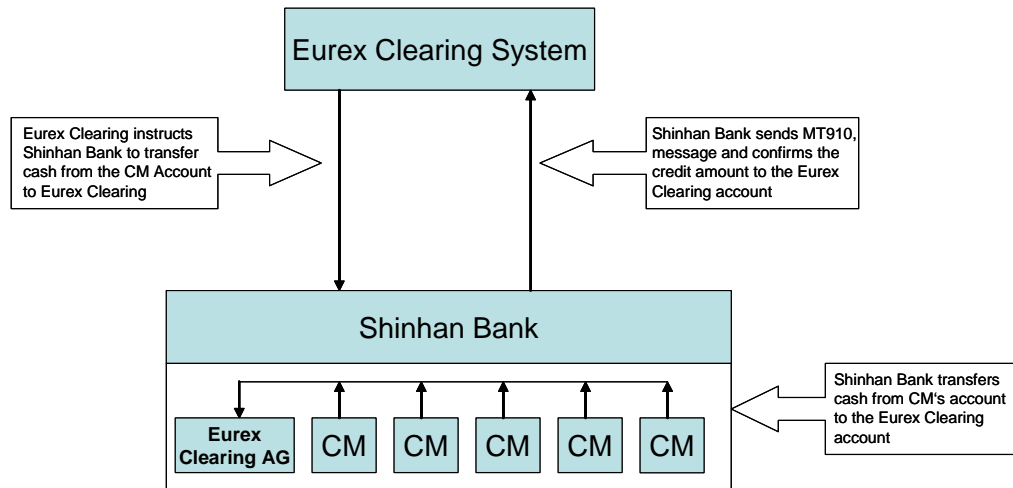
2.4.2 Payment Flows and Instructions through Shinhan Bank

The payment flows in KRW involving Shinhan Bank are in general divided into two streams; the credit payments and the debit payments (seen from a Clearing Member’s point of view)

2.4.2.1 Debit Payments

The payment instructions are initiated by Eurex Clearing via the SWIFT network with message type MT204 for the respective Clearing Member to Shinhan Bank. After receipt through Shinhan Bank it is processed accordingly and a credit to Eurex Clearing’s account at Shinhan Bank is issued.

Eurex Clearing also receives confirmation of the credited amounts with the message type MT910 sent by Shinhan Bank.

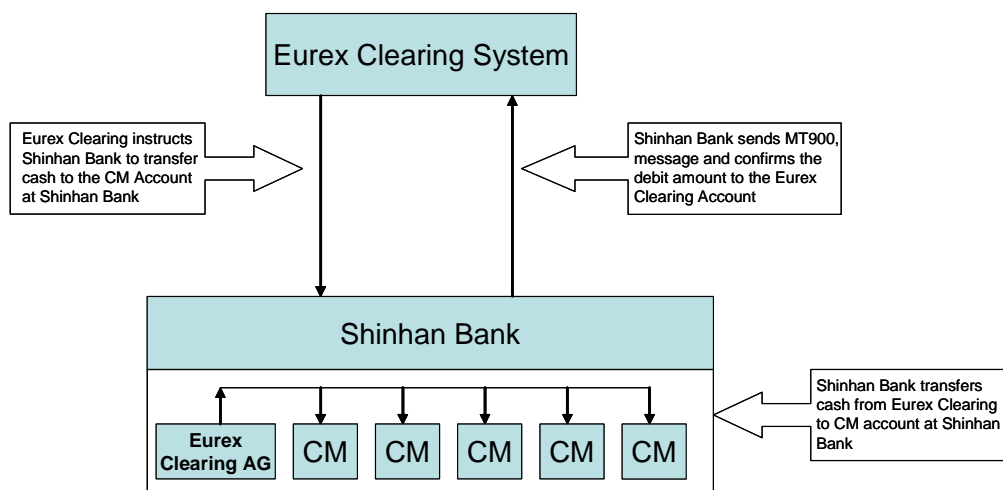


2.4.2.2 Credit Payments

If a Clearing Member is to receive money, Eurex Clearing initiates a payment instruction via the SWIFT network with message type MT202 from Eurex Clearing's account held at Shinhan Bank in favor of the respective Clearing Member's account at Shinhan Bank.

All credit payments are released after all incoming payments resulting from the Clearing Member's obligations have been finalized.

Eurex Clearing receives confirmation of the debited amounts with the message type MT900 sent by Shinhan Bank.



2.4.2.3 Instruction Fees

Eurex Clearing only bears SWIFT fees for the MT204 and MT202 SWIFT instructions submitted by Eurex Clearing. Eurex Clearing does not bear any fees/fines or other charges, e.g. for messages between a Clearing Member and Shinhan Bank or fines for an uncovered Clearing Member's account.

2.4.2.4 Timelines

In general Eurex Clearing first instructs all debit payments via MT204. After Eurex Clearing has received all funds from these payments on the account at Shinhan Bank, all credit payments are instructed via MT202 messages.

The timeline for payments for variation margins and fees is as follows:

- Debit instructions are sent by 3:30 am CET.
- Debit instructions due on Eurex Clearing's account with Shinhan Bank are completed by 15:00 KST (7:00am/ 8:00am¹ CET).
- Credit instructions are made by 16:00 KST (8:00am/ 9:00am¹ CET).

2.5 Simulation Access

The Eurex KOSPI Product is available in the Eurex Simulation Environment and can be tested. A clearing fund contribution is not necessary for simulation access. Please note that the set up processes described in section 2 'How to Participate' need to be performed prior to a Eurex Member being active in production. To register for simulation, the same form can be used to provide Eurex with the KRX Member ID(s) and firm name(s).

In case a Eurex Member is interested in testing the Eurex KOSPI Product but has not set up a relationship with a KRX Member yet, default KRX Member IDs can be provided in simulation for testing purposes. For questions regarding the setup for simulation, please contact Eurex Member Services & Admission at +49 69 211-11700.

To facilitate the transfer of settlement information for expired positions in the Eurex KOSPI Product, Eurex Members are required to enter the following information into the free-text field *TEXT*:

- 3-digit KRX Member ID
- identification number (at least 1 character of a maximum 9 characters)

The *TEXT* field determines whether the KRX Member ID and identification number have a valid relationship with the Eurex Member entering the request. If the KRX Member ID entered in the *TEXT* field is:

- Valid and at least one character for the identification number is entered, the request will be accepted.

¹ During Daylight Saving Time in Europe

- Invalid, or the identification number is not entered, the request will be rejected. The Eurex Member will, however, be able to re-enter this required information in the *TEXT* field.

The KRX Member ID and identification number entered are necessary for KRX and KRX Members in order for the respective KOSPI 200 Option positions to be established at KRX.

Additionally, in simulation, any alphanumeric combination can be used for the identification number. The KRX Position Report can also be subscribed to (section 2.3), however acceptance or rejection of positions depends on the response of the KRX Member. If default KRX member IDs are being used, or if no information is available regarding the status of a position, the report indicates this with 'pending'. It is recommended to contact the related KRX Member to communicate confirmation of entered positions.

Please note that reports are provided in the Eurex[®] system on the following day after a batch day. For an overview of trading and batch days, please refer to the Eurex simulation calendar.

3 Contacts at Eurex

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4 Accompanying Documentation

All documents published in connection with the Eurex/KRX Link are available to Eurex members via Internet on the Eurex website www.eurexchange.com. The Central Circular Management gives notification of each publication by means of a Eurex circular. We strongly recommend downloading all documents from the Internet.

Please find below an excerpt of the documents which have been published:

Release Announcement

Eurex Circular 048/2009: Eurex Release 12.0: Introduction –

Contents: Overview of the features and essential functionalities of Eurex Release 12.0

Available under:

www.eurexchange.com > Documents > Circulars > Archive > 2009

Functional and Technical Release Notes

Contents: Description of member relevant technical and functional changes in connection with the introduction of Eurex Release 12.0

Available under:

www.eurexchange.com > Member Section > Releases > Eurex 12.0

Eurex Circular No. 128/10: Introduction of Daily Futures on KOSPI 200 Options

Contents: The circular contains all essential information on the introduction of the new product, including applicable forms and an earlier version of this Member Readiness Guide.

Available under:

www.eurexchange.com > Documents > Circulars > Archive > 2010

Eurex Circular No. 159/10: Market Maker Schemes and Mistrade Ranges

Contents: The circular contains information on market making schemes and mistrade ranges for the Eurex KOSPI Product.

Available under:

www.eurexchange.com > Documents > Circulars > Archive > 2010

Eurex Circular No. 247/2010: Eurex KOSPI Product: Availability of the Multilateral Trade Facility

Content: The circular provides additional clarification regarding accessing the Eurex KOSPI Product through OTC Block Trades using Eurex' Multilateral Trade Registration Facility, so that an introducing broker does not have to fulfill the requirements for trading and clearing the Eurex KOSPI Product as long as it is not a counterparty to the trade.

Available under:

www.eurexchange.com > Documents > Circulars > Archive > 2010
