

Client Asset Protection – Ensuring the highest protection for customers

As our objective is to maximize both operational and capital efficiencies for participants, client asset protection is an area in which we have invested significant resources. Following the default of Lehman Brothers and a growing demand from clients, we have developed an approach that ensures segregation and portability of client positions and assets (collateral) in the event of clearing member default.

Eurex Clearing has introduced an innovative offering that allows the asset management industry to choose the level of client asset protection they require, depending upon their business model and risk profile. As the world's first clearing house, we successfully launched the Individual Clearing Model (ICM) in 2011, satisfying Non-Clearing Member (NCM) requirements for the highest level of segregation and portability.

Key benefits

Our Client Asset Protection service has been structured for clients of Clearing Members to deliver the following benefits:

- **Maximum protection** for clients under a secure legal construct.
- **Segregation of client margin collateral** mitigating the impact on clients in the event of a Clearing Member's default.
- **Portability of positions** enabling continued trading in the event of their Clearing Member's default.
- **Portability of client margin collateral** in the event of a Clearing Member's default.

- **Unique client segregation** offering a higher level of protection with the Individual Clearing Model.
- **Further capital efficiencies** with upcoming regulations.

Our solution

This year, Eurex Clearing has continued to develop further solutions that cover the different needs of our customers while at the same time ensuring compliance with upcoming regulatory requirements in Europe.

We are planning the extension of our ICM model, including the same legal mechanisms of title transfer, close-out netting and pledges to Registered Customers (RC) who are not trading members of markets cleared by Eurex Clearing. Furthermore, we are developing an Omnibus Net Model, reflecting current market structures, which would allow CASS compliance.

A detailed overview of our Client Asset Protection Models can be found in the graph below:

	Eurex Clearing Model	EMIR	Solution	Market scope
Segregated	Individual Clearing Model (ICM)	Individual client segregation*	Individually segregated NCMs	Eurex Exchanges, Eurex Bonds, Eurex Repo, FWB, ISE, EEX
			Individually segregated RCs	Eurex Exchanges, EEX, OTC IRS
			Individually segregated funds/flexible account structure	OTC IRS
	Omnibus Net Model/CASS (ONM)	Omnibus client segregation**	Allows CASS compliance	Eurex Exchanges, EEX Cooperation Products
Non-segregated	Elementary Clearing Model (ECM)	Proprietary clearing	May include clients who have not opted for segregation	Across all markets

* Current jurisdictions: Germany, England/Wales
Jurisdictions under review: France, Switzerland, Netherlands

** Eurex Clearing is currently looking into Omnibus Gross Model; More information and timeline will be provided in a due course.

Main Features	Individual Clearing Model	Omnibus Net Model*	Elementary Clearing Model
Clients	Clients are disclosed to Eurex Clearing.	Clients are not disclosed to Eurex Clearing, but apply for segregation with its CMs.	Clients opt out from segregation on Eurex Clearing level.
Legal agreement	<ul style="list-style-type: none"> • Tripartite agreement for ICM (Eurex – CM – NCM/RC). • In case of ICM for funds (Flexible Account Structure): Segregation applies on individual fund level.* 	<ul style="list-style-type: none"> • Agreement on CM level with client(s) required. • Separate framework agreement between Eurex Clearing and CM. 	<ul style="list-style-type: none"> • Agreement on CM level with client(s) required. • NCM/RC (for OTC) to conclude a tripartite agreement for ECM.
Legal structure/ provision of collateral	Double title transfer.	Title transfer of cash and a pledge of non-cash collateral to Eurex Clearing.	Collateral is proprietary collateral of Clearing Member only.
Portability	Full portability of positions and collateral; Upon fulfillment of prerequisites: 1) Interim Participation (NCM/RC) or 2) Immediate transfer via re-establishment under a new solvent CM.	Portability is available for the omnibus net account where all clients agree to be ported and a single alternative clearing member accepts the re-establishment.	Porting is not generally available under the ECM.
Protection	Maximum protection of positions and collateral for clients under a robust legal construct.	The omnibus net collateral is protected at the CCP level.	Protection at CM level.
General set-up	<ul style="list-style-type: none"> • Positions and collateral held on individual segregated accounts. • The margin requirement of a segregated client is covered by a dedicated collateral pool, which only holds collateral for the purpose of this client. • Collateral is segregated from the proprietary collateral of the CM. • The securities collateral account remains within the account structure of the CM from an operational perspective and is clearly labeled to hold collateral for the purpose of the segregated client. • Cash collateral is paid from the account of the CM. There is a unique identifier indicating the respective client displayed on the reports. 	<ul style="list-style-type: none"> • Positions and collateral held on omnibus net account. • Collateral can not be assigned to individual clients. • Overall Eurex Clearing margin requirement in the omnibus account is calculated net and covered by one dedicated collateral pool that only holds collateral for the purpose of omnibus clients (cash/securities). 	<ul style="list-style-type: none"> • Positions are held on separate position accounts and are covered by CM collateral.
System access for the client	NCM: Full access required RC/MAC: Optional access, but Common Report Engine mandatory.	No system access for clients.	NCM: Full access required RC: Optional access, but Common Report Engine mandatory.

* Currently in analysis

Next steps

Over the course of 2012, we are planning to continue to address additional Client Asset Protection requirements with focus on omnibus gross solutions. Eurex Clearing will offer further segregation alternatives that will allow client positions and margin to be segregated at clearing house level.

It is our aim to create the maximum legal certainty for our customers. Eurex Clearing is taking a close look at all national insolvency and investment rules and backing them up with legal opinions. Our solutions will therefore be designed with a view to ensure compliance, also with upcoming regulatory initiatives.

At Eurex Clearing, we are keeping **you clear to trade**.

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