

clear to trade



Eurex Clearing AG

Response

CESR / ESCB consultation

Draft recommendations for central counterparties as
amended for OTC derivatives

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A. Introduction

Eurex Clearing AG appreciates the opportunity to comment on the draft recommendations for central counterparties as amended for over-the-counter derivatives, which were published for a short consultation by the Committee of European Securities Regulators and the European System of Central Banks on 31 March 2009. As one of the world's leading clearing organizations providing a complete set of clearing and risk management services for major exchanges and market places and in providing central clearing solutions for credit default swaps and other OTC derivatives, Eurex Clearing welcomes the aim of the recommendations to promote a safe and sound pan-European post-trading arrangement. In particular, Eurex Clearing agrees that the redrafted recommendations, by explicitly addressing the risks of OTC derivatives, should serve to increase confidence in the financial markets of the European Union.

B. Comments

Overall Eurex Clearing would like to emphasize that the amended recommendations make a valuable contribution in addressing the financial stability risks posed by the growing scale of OTC derivatives exposures. To this end, Eurex Clearing very much agrees with points made about the different risk management approaches required for OTC derivatives as compared with listed derivatives, for example, the **recognition of the relevance of a dedicated clearing fund to address risks associated with OTC products.**

A further distinguishing measure for CCPs for OTC derivatives in the context of conducting appropriate risk management is that **users deliver price data to CCPs.** Eurex Clearing would recommend that this requirement be incorporated clearly in the recommendations as amended for OTC derivatives, e.g., in the introductory text. Similarly, the text in the paragraph eight of the introduction regarding central storage details for OTC trades in data warehouses should reflect the **importance of access for CCPs to such data warehouse facilities, including but not limited to global facilities,** in addition to the already mentioned required access for supervisors.

A further risk management point relates to explanatory memorandum point three of recommendation four on margin requirements. Eurex Clearing would encourage redrafting to reflect the ability of CCPs to impose even stricter risk management standards, especially given differences with risk management for OTC derivatives as already discussed. Instead of margins being sufficient to protect the CCP from losses that result from 99% of the price movements over an appropriate time horizon, Eurex Clearing would suggest that the text be changed to recommend that **"at least" 99% of potential future losses be covered.**

A further risk management point relates to explanatory memorandum point four of recommendation eight on operational risk. In addition to analysing sources of risk from trading and settlement arrangements as well as data warehouse, Eurex Clearing would suggest that **"CCPs should actively identify and analyze sources of risk...including but not limited to trading and settlement arrangements, data warehouses, as well as price and market data."**

Eurex Clearing has a further redrafting suggestion to improve the clarity of the document. **References to “non-clearing participants” should be replaced with “customers of clearing members” and “participants” should be replaced with “clearing member”.** This change would be important to execute throughout the document to avoid confusion.

C. Conclusion

Eurex Clearing welcomes the draft recommendations from CESR and the ESCB for central counterparties as amended for OTC derivatives and looks forward to cooperation with the relevant counterparties to evaluate compliance.

Eurex Clearing would also like to acknowledge that it has worked closely with the response of the European Association of Central Counterparty Clearing Houses in ensuring that other issues of importance to Eurex Clearing have been addressed.

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