

clear to trade



The Chairman
International Securities Lending Association
St. Michael's House,
1 George Yard
London
EC3V 9DH

June 29, 2009

A Central Counterparty in the European Equity Securities Lending Market

Dear Sir,

Eurex Clearing AG appreciates the recent release of an initial report on "A Central Counterparty in the European Equity Securities Lending Market" by the ISLA CCP Working Group.

Eurex Clearing AG welcomes the opportunity to respond and has formulated its comments and viewpoint in the accompanying document that focuses on the challenges and the advantages of providing Central Counterparty (CCP) services in the securities lending market.

Eurex Clearing AG is confident that its CCP model offered for the securities lending market will deliver the appropriate answers that meet the high level guidelines set out in the initial report.

Please contact Thomas Wissbach if additional information on Central Counterparty Services for the securities lending market is required.

Yours faithfully,

Dr. Thomas Book
Member of the Executive Board

Thomas Wissbach
Senior Vice President



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Aktiengesellschaft mit
Sitz in Frankfurt/Main
HRB Nr. 44828
Amtsgericht
Frankfurt/Main

In response to the recent release of an initial report on “A Central Counterparty in the European Equity Securities Lending Market” by the ISLA CCP Working Group, Eurex Clearing AG has formulated the following comments.

The challenges of a CCP in the Securities Lending market

Eurex Clearing AG recognises the challenges of implementing a successful CCP model for the securities lending market. It is its intention to preserve the key features and characteristics of the current market model for both lending and borrowing counterparts and to offer a broad geographical coverage for a multitude of different types of players in the market as well as to deliver significant operational efficiencies to all participants.

A CCP is required to provide automated post trade services in the context of specific securities lending activities. This would include value added services by offering cross margining and cross collateralization facilities to the participating members and a flexible but at the same time secure collateral management.

A CCP should retain the bilateral trading and negotiation between the market participants in the trading process for the securities lending market and ensure post trade anonymity.

Eurex Clearing AG is actively working with participants in the market to provide solutions for issues raised in discussions and the report. The key items that are being incorporated into the CCP model include a specific license for securities lending participants, the provision of risk and collateral management and post-trade activities unique to the securities lending market.

The CCP business model

CCP services have become common in the exchange traded derivatives and the cash equity and bond markets for many years. In recent months, there has been a strong trend to introduce CCP services for the OTC derivatives and the securities lending and borrowing markets as pressure has arisen for the provision of effective risk and collateral management and reduced systemic risk. In the derivatives and cash markets, the CCP business model serves two main objectives, reducing and centralising the counterparty risks for the market participants and improving the operational efficiency in the post-trade environment.

Depending on domestic regulations, a CCP can be seen as a risk-free counterparty from a regulatory point of view and for this reason the exposure of a clearing member to a CCP is not required to be covered with regulatory capital and a ‘zero weighting’ applies. In the case where a CCP is not regarded with zero-capital weighting, the netting effect of contracting with a single counterparty (the CCP) would still lead to reduced capital requirement for clearing members.

As such, the CCP not only reduces the counterparty risk and the credit exposures for the individual market participants, but it also introduces a considerable reduction in systemic risk for the market in its entirety. In addition to setting prudent capital requirements towards its clearing members, a CCP will ensure overall market integrity by setting a number of additional stress-tested lines of defence, such as a clearing fund (contributed by clearing

