

part of eex group



Information on Segregation and Portability

Clearing Strategy
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Table of Contents

| | | |
|-----------|--|-----------|
| 1. | Legal Disclaimer | 4 |
| 2. | Introduction | 5 |
| 2.1 | Principal-to-Principal Model | 5 |
| 2.2 | Guarantor Model | 6 |
| 3. | Segregation Account Types | 7 |
| 3.1 | Omnibus Segregation | 7 |
| 3.2 | Individual Segregation | 8 |
| 4. | Setup and information aspects | 9 |
| 4.1 | How to opt for an OSA? | 9 |
| 4.2 | How to opt for an Individual Segregated Account (ISA)? | 9 |
| 4.3 | How are different segregation setups reflected in the Clearing system? | 9 |
| 4.4 | What kind of reports are available? | 9 |
| 4.5 | What if a Non-Clearing Member uses more than one Clearing Member? | 10 |
| 5. | FAQs on Collateral & Margin | 11 |
| 5.1 | Are collaterals bankruptcy remote in case of CCP insolvency? | 11 |
| 5.2 | What about Intraday Margin Calls? | 11 |
| 6. | FAQs on Clearing Member default | 12 |
| 6.1 | What happens to existing transactions? | 12 |
| 6.2 | Will the CCP Transactions and assets automatically be ported? | 12 |
| 6.3 | In Omnibus Segregation all of the Clients who have CCP Transactions and assets relating to them recorded in the same Collateral Pool will have to agree to use the | |

| | | |
|-----------|---|-----------|
| | same transferee Clearing Member, and this Clearing Member will have to agree to accept all of these omnibus Clients, their CCP Transactions and related assets. Will the Client get back the same type of asset as originally provided? | 13 |
| 6.4 | What happens if porting is not achieved? | 13 |
| 6.5 | What happens with NCM Variation Margin payments in case of a Clearing Member default? | 14 |
| 7. | Client Risk Disclosure | 15 |

1. Legal Disclaimer

Whilst this document might be helpful when making decisions, it is not legally binding and does not constitute legal or any other form of advice and must not be relied on as such. Your relationship towards ECC is solely governed by respective Agreements with ECC and ECC's Clearing Conditions in their current valid version.

This document only provides high level information and does not interpret the governing Agreements or applicable rules and regulations.

This document does not provide all the information necessary to make a decision on which account type or level of segregation is suitable. Nothing contained herein should be considered a solicitation or a recommendation by us or an assessment of suitability for a particular account type, level of segregation or transaction.

No representation or warranty is made as to the accuracy or completeness of the information provided herein. It is each Clients responsibility to review and conduct own due diligence on any information provided.

Any decisions you take have to be based on your own analysis and judgment. ECC shall not be liable for resulting damages. It is recommended to appoint own professional advisors to assist in the decisions for the appropriate level of segregation.

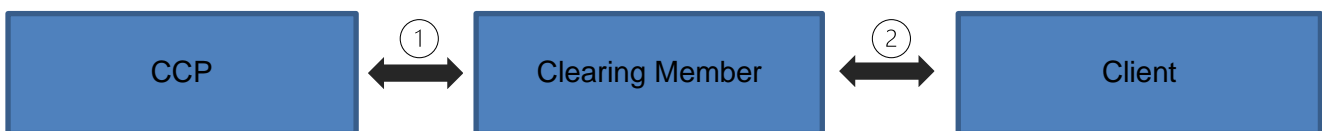
Please note that this disclaimer shall be subject to and construed in accordance with the principles of German law and shall be governed by the laws of Germany.

2. Introduction

This document explains commonly asked questions relating to ECC's segregation model offering in the light of EMIR Article 39. It is updated from time to time and published on ECC's website. This document is intended for information purposes only.

2.1 Principal-to-Principal Model

ECC operates a “principal-to-principal” clearing model for derivatives¹ transaction clearing according to Par. 3.3.1 & 3.3.2 of ECC's Clearing Conditions: When a derivative transaction is concluded on one of the markets ECC clears, two separate transactions are created in case of non-proprietary business from a Clearing Member perspective:



1. A principal-to-principal transaction between the Clearing Member and the CCP, which is governed by the rules of the CCP (the CCP Transaction).
2. A principal-to-principal transaction between the Clearing Member and its client, which is governed by the terms of the selected client clearing agreement (the Client Transaction) as well as the rules of the CCP. Client means Non-Clearing Members or agency clients of the Clearing Member.

The terms of each Client Transaction are equivalent to those of the related CCP Transaction whereas the Clearing Member will take opposite position accordingly.

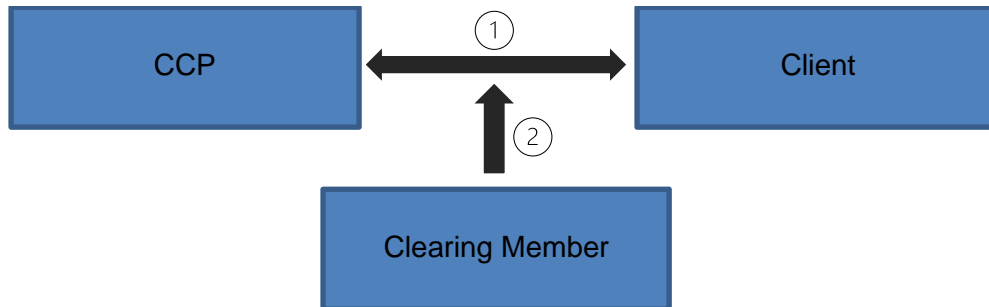
A Client Transaction will arise without the need for any further action by either Clearing Member or client as soon as the CCP Transaction arises between Clearing Member and the CCP. Once both of those transactions have been entered into, a transaction is considered to be “cleared”.

As the principal to the CCP, the Clearing Member is required to provide margin collateral to the CCP in relation to the CCP Transaction as required by the CCP. The Clearing Member will therefore request its Client for sufficient margin collateral and, where the Client provides it in a form which is not accepted by the CCP, the Clearing Member may transform it accordingly. Pursuant to ECC's Clearing Conditions the Clearing Member has to receive at least the amount of margin collateral from its Clients as required by the CCP.

¹ “Derivatives” in this context means transactions in futures and options regardless of the regulatory classification as derivative under MIFID.

2.2 Guarantor Model

Additionally, ECC operates a guarantor model when it comes to physical delivery of commodities: When a spot market² transaction according to Par. 3.3.1 & 3.3.3 Clearing Conditions is concluded on one of the markets ECC clears or when a derivatives market transaction goes into physical delivery according to Par. 3.3.5 Clearing Conditions the Clearing Member only guarantees the financial performance of the obligation which is established directly between the CCP and the Client:



1. A Client transaction with the CCP (CCP Transaction) is governed by the rules of the CCP as well as the financial guarantee of the Clearing Member for this CCP Transaction.
2. The financial guarantee of the clearing member is governed by the terms of the client clearing agreement (the Client Transaction) and the rules of the CCP. The guarantee for a CCP Transaction is similar to a Client Transaction.

Besides guaranteeing the performance of the Client, the Clearing member furthermore acts as a settlement agent for the Client (accepting and issuing payments on the Client's behalf). Once the transaction has been entered into, a transaction is considered to be "cleared".

As the guarantor to the benefit of the CCP, the Clearing Member is required to provide margin collateral assets to the CCP in relation to the CCP Transaction as required by the CCP.

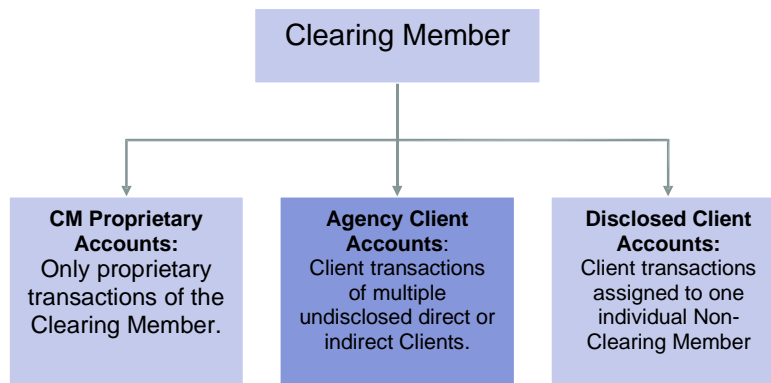
The Clearing Member will therefore request its Client for sufficient margin collateral and, where the Client provides it in a form which is not accepted by the CCP, the Clearing Member may transform it accordingly. Pursuant to ECC's Clearing Conditions the Clearing Member has to receive at least the amount of margin collateral from its Clients as required by the CCP.

² Spot Market transactions are defined as transactions that are fulfilled within 2 days after conclusion according to ECCs Clearing Conditions

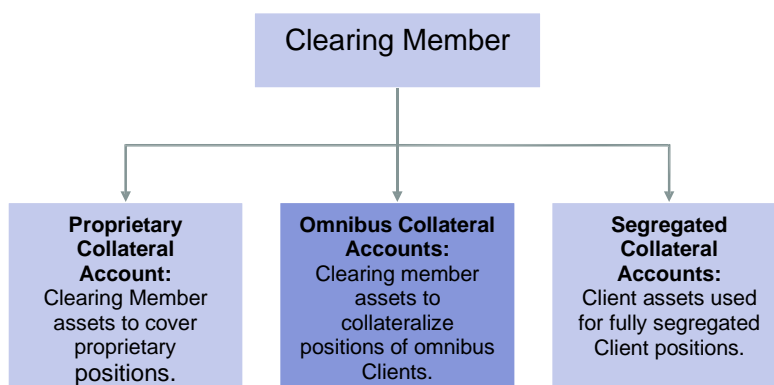
3. Segregation Account Types

Besides the proprietary position account on to which proprietary transactions of a Clearing Member are booked, one can basically distinguish two different types of Client position accounts in accordance with Par. 3.5.1 – 3.5.5 of ECC’s Clearing Conditions:

1. Agency Client position accounts on which transaction of multiple undisclosed Clients are booked
2. Disclosed Client position accounts, i.e position accounts assigned to one individual Non-Clearing Member



Furthermore, in order to collateralize the margin requirements stemming from the various position accounts described further above, the Clearing Member can set up different types of Collateral Clearing Accounts in accordance with para 3.5.7 of ECC’s Clearing Conditions. Consequently, ECC offers various options of the two segregation options mandated by EMIR Article 39: Omnibus Segregation as well as Individual Segregation.



3.1 Omnibus Segregation

ECC’s Omnibus Segregation comprises General Omnibus Segregation (GOS), Simple Omnibus Segregation (SOS) as well as Omnibus Segregated Account (OSA).

For each variant, the relevant positions of the omnibus Clients are held segregated from any proprietary positions of the Clearing Member on CCP level. Dependent on the choice of the Client position account type (see section 2.2 above) positions of omnibus Clients could however be commingled with these of other omnibus Clients of this Clearing Member. Netting for the purpose of position keeping and margining will only take place within a single position account but never across position accounts.

Margin collateral covering the requirements stemming from the omnibus Clients position accounts is recorded separately – via the respective Collateral Clearing Account - from the collateral covering the proprietary positions of the Clearing Member. However, in case of the utilization of the Standard Collateral Clearing Account (GOS type of segregation) this might only happen on a by-value basis. The assets booked to the same Collateral Clearing Account are covering all omnibus Client position accounts assigned to that Collateral Clearing Account. GOS, SOS, and OSA however allow for setting up as many Collateral Clearing Accounts as required by the Clearing Member. A specific of the OSA setup is that collateral is considered to be passed-through Client collateral and thus fully segregated from all other Client business of the Clearing Member.

3.2 Individual Segregation

Under this account type, the positions of the Non-Clearing Member as well as its margin collateral assets are fully segregated positions and margin collateral assets relating to the Clearing Member's proprietary business as well as all other omnibus and individually segregated Client business of the Clearing Member.

ECC will not net for the purposes of position keeping and margining the CCP Transactions relating to the Individual Account with

- proprietary positions of the Clearing Member,
- or any Client positions of the Clearing Member not recorded in the same Client account

nor use the margin collateral assets relating to such individual Client accounts in relation with

- the proprietary positions of the Clearing Member,
- or Client positions recorded in any other account.

4. Setup and information aspects

4.1 How to opt for an OSA?

Upon request of the Clearing Member, ECC opens one or more OSA Accounts. Clients who want to opt for an OSA need to appoint a so-called Omnibus Representative, since, as a prerequisite, ECC and the so-called Omnibus Representative of the OSA Clients must sign a triparty Agreement (CM02c).

A Client that wants to opt for an OSA should contact its Clearing Member and should sign a bilateral close-out netting agreement.

4.2 How to opt for an Individual Segregated Account (ISA)?

ISA is available for disclosed Clients, i.e. Non-Clearing Members only. The interested Non-Clearing Member should contact its Clearing Member to start the process for setting up the ISA. A triparty Agreement (NCM02c) has to be signed by the NCM requesting segregation, its CM and ECC. A Close-out Netting Agreement should be concluded between the CM and the segregated NCM.

4.3 How are different segregation setups reflected in the Clearing system?

ECC is using Eurex Clearing's C7 clearing system for position and collateral management purposes. The value of margin collateral available is shown per collateral pool in the in C7 system near to real time.

The naming convention for Collateral Clearing Accounts ("Collateral Pools") uses following pattern. Minor amendments are possible in agreement with ECC:

- Separate Proprietary Pool: CM ID + XPROPOOL e.g.: ABCEXXPROPOOL
- Standard/GOS Pool: CM ID + XSTANDARD e.g.: ABCEXXSTANDARD
- SOS Pool: CM ID + CM ID + SOS + Position Account e.g.: ABCEXABCEXSOSA2
- OSA Pool: CM ID + CM ID + SOS + Position Account e.g.: ABCEXABCEXOSAA1
- ISA Pool: CM ID + NCM ID + ISA + Position Account e.g.: ABCEXDEFEXISAPP

4.4 What kind of reports are available?

ECC provides a comprehensive set of reports that support the management and monitoring of collateralization levels via the Common Report Engine (CRE). Clearing Member and Non-Clearing Member can get access to the CRE according to the following information:

Common Report Engine User Guide: [ECC Common Report Engine User Guide](#)
Setup form T06: [Admission Forms \(ecc.de\)](#)

The end-of-day (EOD) reports are available at the beginning of the next business day. For detailed information regarding the contents of the provided reports please refer to [Eurex XML Report Reference Manual](#) at www.eurex.com/ec-en > Support > Initiatives & Releases > C7 Releases.

4.5 What if a Non-Clearing Member uses more than one Clearing Member?

If a Non-Clearing Member uses the same Clearing Member for several markets cleared by ECC, one segregation option has to apply to all these markets. If a Non-Clearing Member uses other CMs for further markets cleared by ECC, i.e. establishes more than one clearing relationship, the Non-Clearing Member can choose the segregation setup per relationship.

5. FAQs on Collateral & Margin

5.1 Are collaterals bankruptcy remote in case of CCP insolvency?

Clearing Members can provide margin collateral in the form of cash (mandatory up to a certain ratio) or securities (optional):

- **Cash:** Cash is titled transferred to ECC. The funds are managed together with ECC's own funds and other funds according to ECC's Investment Policy. Segregation is ensured via ECC's books and records (i.e. the Collateral Clearing Accounts). In case of an insolvency of ECC such funds are expected to become part of the CCP's insolvency estate and therefore are not regarded as bankruptcy remote.
- **Securities:** The securities provided by means of pledge. Pledged accounts need to be opened in the Clearing Member's name at Clearstream Banking Frankfurt AG (CBF). In case of a default of ECC, they are not expected to become part of the insolvency proceedings and are therefore regarded as bankruptcy remote.

5.2 What about Intraday Margin Calls?

An intraday margin shortfall of any omnibus segregated or individually segregated Collateral Pool can be covered with a surplus of the Standard Collateral Pool of the Clearing Member. Any (intraday) margin surplus of an ISA or an OSA Collateral Pool can however not be used to cover an intraday shortfall of the Standard Collateral Pool.

Should the collateral of the Standard Collateral Pool not be sufficient to cover the intraday margin shortfall of the omnibus and individually segregated Clients as a whole an intraday margin call will be instructed by ECC against the CM. This margin call can be served in cash or securities collateral by the CM. The collateral will be credited to the Standard Collateral Pool of the CM. The CM can then allocate the collateral the different segregated collateral pools.

6. FAQs on Clearing Member default

6.1 What happens to existing transactions?

Derivative Transactions

There are two possibilities with respect to the CCP Transactions and assets related to the Client:

- the CCP will, at Clients request, try to transfer (port) to another Clearing Member (a back-up Clearing Member), such CCP Transactions and assets; or, if this cannot be achieved,
- the CCP will terminate the CCP Transactions that relate to the client.

The porting process will be a close-out with the defaulting Clearing Member and a re-establishment with the transferee Clearing Member of the CCP Transactions or a transfer of the open CCP Transactions and related assets to the transferee Clearing Member.

Spot Transactions

Spot transactions are concluded between ECC and the Clients directly with the Clearing Member acting as payment agent and guarantor (see section 2.2 of this document). They will not be ported, but ECC will decide whether to complete delivery or to terminate them depending on the ability of the Client to appoint an alternative payment agent.

Difference Claim for terminated/ported transactions

As a result of termination, ECC will calculate a difference claim on the Clearing Member that reflects the economic loss that ECC suffers out of replacement or hedging transactions on the open position. The difference claim where it is negative (i.e. an amount owed to ECC) may be satisfied by using available collateral. If the amount is positive, it is returned to the Clearing Member.

To calculate collateral usage per relevant Client account, a hypothetical difference claim is allocated to each Client account, reflecting regarding the position at maximum the amount if only this account had been subject to termination / porting. Usage of collateral that is allocated to client accounts is capped at the amount of each hypothetical claim amount; within an omnibus collateral account, all collateral allocated to position accounts of that omnibus may be used.

6.2 Will the CCP Transactions and assets automatically be ported?

There will be a number of conditions which must be satisfied before the CCP Transactions and related collateral assets can be ported to another Clearing Member; these conditions will include obtaining the Client's and new Clearing Member's consent:

- Only positions and assets of Clients related to ISA, OSA or GOS and SOS accounts that relate to NCMs only will be ported.
- Positions of NCMs could be ported for single NCMs without collateral assets in case the porting of assets is not possible.
- The ISA/OSA clients may appoint a back-up Clearing Member (for OSA joint appointment across Clients) that has agreed to accept the CCP Transactions in case of a default of the primary Clearing Member. It is advisable to appoint a back-up Clearing Member upfront. The backup Clearing Member may also have conditions that have to be met. If no backup Clearing Member has been appointed prior to the Clearing Members default, then this may mean that porting is less likely to occur.

- The Client may appoint a new Clearing Member on its own initiative or when contacted during the default event by ECC. The Clearing Member may have conditions that need to be fulfilled. This comprises the technical setup but also contractual work. ECC will only allow a typically short time window for this part of the transfer process (porting period).
- Furthermore, in case of default, ECC reserves its rights to deny porting to a transferee Clearing Member if additional collateral cannot be furnished by this Clearing Member, or if its risk assessment of the transferee Clearing Member would make a porting of assets or transactions imprudent.

The type of account and level of segregation will have an impact on the ability to port CCP Transactions and assets to a backup Clearing Member:

6.3 In Omnibus Segregation all of the Clients who have CCP Transactions and assets relating to them recorded in the same Collateral Pool will have to agree to use the same transferee Clearing Member, and this Clearing Member will have to agree to accept all of these omnibus Clients, their CCP Transactions and related assets. Will the Client get back the same type of asset as originally provided?

ECC adheres to EMIR Article 48(7) when it comes to returning remaining balances following the event of the Clearing Member's default. However, Clients may not receive back the same type of asset that they have originally provided to their Clearing Member. This is because the CCP may have to liquidate assets partly and return the cash proceeds but also because the CCP may not know what form of asset the Client originally provided to the Clearing Member (i.e. in case of asset transformation services provided by the Clearing Member). This risk is present regardless of what type of client account the Client selects. Under ISA and OSA segregation this risk is the smallest.

6.4 What happens if porting is not achieved?

Following a default event, ECC will actively manage its risks in relation to the CCP Transactions within a specific period of time. This period of time is set by the Default Management Committee in accordance with ECC's default procedures. The Clients will need to notify ECC and fulfill the porting conditions within this period.

Otherwise, ECC will terminate the CCP Transactions and perform a close-out accordance with its rules.

If there is an amount owed by the CCP in respect to collateral provided to the CCP

- Via GOS and SOS accounts,
 - a) to the extent that the CCP knows the Client's identity (this excludes A Accounts but includes OSA Accounts and NCMs),
 - b) only if the clients have concluded with their CM a netting agreement that only covers ECC,
 - c) the clients have proven to ECC's satisfaction the amounts they have placed as collateral with the CM through a title transfer collateral arrangement and which have not been used due to a close-out amount by the CM.

ECC will offer to pay such remaining collateral amount (limited to the collateral allocated to the clients transaction account and limited to the amount in c) directly to the known Clients under its reclaim procedure. Otherwise, ECC will pay directly to the insolvency practitioner of the defaulted Clearing Member for the account of the Clients.

- Via ISA and OSA accounts,
 - a) ECC, after it has potentially made use of the collateral in respect to the client transactions associated with the ISA or OSA Account, will release its pledge on the ISA/OSA collateral.
 - b) The ISA/OSA Client have a secondary pledge on the collateral to the benefit of the ISA client/OSA representative.
 - c) ECC will therefore release the collateral to the ISA Client / OSA representative after having given corresponding information to the beneficiary and after having been instructed by the beneficiary.

6.5 What happens with NCM Variation Margin payments in case of a Clearing Member default?

The client's daily settlement of variation margin for transactions cleared by ECC takes place between the NCM or Client and the Clearing Member. The payment arrangement and the settlement details are outside of ECC's payment system and are therefore not protected by the segregation as described above.

Example: NCM pays variation margin to CM who defaults. NCM moves to transferee Clearing Member. ECC did not receive variation margin payment from old Clearing Member.

ECC will use the collateral to cover firstly its own outstanding debts with regard to the NCM positions and only transfer the remaining collateral. Consequently, that means that the NCM is at risk with the variation margin payments, which can be typically limited to one day depending on payment arrangements between Clearing Member and NCM and the speed of transfer to the transferee Clearing Member.

Example: ECC pays Variation Margin to Clearing Member who defaults. NCM did not receive Variation Margin payment from Clearing Member.

The NCM will have to claim the outstanding debt with the Clearing Member's insolvency administrator. ECC cannot reimburse the NCM for potential losses.

7. Client Risk Disclosure

The descriptions given in this part are very high level and consider the typical features of the account types and levels of segregation. However, the particular characteristics of the accounts will affect the exact levels of protection they offer and the legal implications. Thus, for the complete picture it is required to review additional documents and information provided by ECC to fully understand the risks of the specific account including but not limited to:

- Current ECC Clearing Conditions: <http://www.ecc.de/ecc-en/about-ecc/rules>
- Publications on ECCs website: <http://www.ecc.de/ecc-en/risk-management>
- Access conditions and forms: <http://www.ecc.de/ecc-en/access-to-ecc>
- Price List: <http://www.ecc.de/ecc-en/about-ecc/rules/price-list>

Clients should also seek professional legal advice to understand the differences in detail. The following table shows the typical risk in relation to the different segregation types:

| | |
|---------------------|---|
| Transit Risk | Whether the Client is exposed to losses at any point in the process of providing or receiving margin in respect of Client Transactions. |
| Fellow Client Risk | Whether assets provided as collateral could be used to cover losses in CCP Transactions relating to another Client. |
| Liquidation Risk | Whether, if the CCP Transactions and assets relating to them were to be ported, there is a risk that any non-cash assets would be liquidated into cash. If this were to happen, the value given to such assets by the CCP may differ from what the Client perceives to be the full value of the assets. |
| Haircut Risk | Whether the value of the assets that relate to CCP Transactions might be reduced or not increase by as much as the Clients expects because the CCP applied a haircut that did not fully or properly reflect the value of the asset. |
| CCP Insolvency Risk | Whether the Client is exposed to the insolvency or other failure of the CCP. |

The following table gives an overview on the typical features of the different segregation models followed by a high-level summary of the risk assessment. The extent to which any of the risks are relevant to the Client not only depend on the chosen level of segregation but also on the type of asset provided as margin to the Clearing Member and the legal concept of providing those assets. It is therefore recommended to assess the details using legal advice:

| | GOS/SOS Omnibus | OSA | ISA |
|---|--|---|---|
| Who will the CCP Transactions recorded in the Position Account relate to? | CCP Transactions that relate to one or more undisclosed Clients as well as one or more disclosed Clients (NCM), but in | Assets and CCP Transactions that relate to one or more undisclosed Clients, but in any case | Only assets and CCP Transactions that relate to one specific Client |

| | | | |
|--|--|--|---|
| | any case still separated on Position Account level | separated on Position Account level | |
| Which losses do collateral assets recorded in the respective Collateral Account cover? | Assets recorded in omnibus Collateral Pools can be used to cover losses for the CCP Transactions related to several Clients of the Clearing Member dependent on the chosen setup. Fellow client risk exists. | | Assets recorded in the Collateral Account can only be used to cover losses for the CCP Transactions of a single Client related to this account. No fellow client risk exists. |
| Will the CCP know which types of assets relate to a particular Client? | The CCP does not know which assets have been posted by each individual Client. Groups of Clients can be created and allocated though via multiple Omnibus Collateral Accounts. | | Yes |
| Will CCP Transactions related to the same Collateral Account be netted? | Positions recorded on one Position Account (regardless if it is an NCM Position Account or an Agency Client Position Account) will not be netted with positions on any other Position Account. | | |
| Will margin be calculated gross or net for the Position Account? | Gross across Position Accounts, net within a Position Account. | | |
| Does the Client need to execute any legal arrangements directly with the CCP? | For undisclosed Clients there is no legal arrangement directly with the CCP. For disclosed Clients (NCMs) there is a triparty agreement between CCP, NCM and Clearing Member. | There is a triparty agreement between Omnibus Representative, CCP, and Clearing Member. | There is a triparty arrangement between CCP, NCM and Clearing Member. |
| Transit Risk | Yes | Yes | Yes |
| Fellow Client Risk | Yes | Yes | No |
| Liquidation Risk | Yes | Yes (unless assets are ported and transferred to new Clearing Member before liquidation). Collateral for spot transactions will not be transferred as spot positions cannot be transferred. Therefore, risk is higher. | |
| Haircut Risk | Yes | Yes | Yes |
| CCP Insolvency Risk | Yes | Yes | Yes |

| | | |
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| <p>How likely is it that porting will be completed?</p> | <p>Significant risk that porting cannot be achieved for assets for all Clients and for positions of Agency Clients. If preconditions (e.g. back-up Clearing Member) are fulfilled by the NCMs it is more likely that porting of positions can be achieved.</p> | <p>If preconditions (e.g. back-up Clearing Member) are fulfilled it is more likely that porting of assets and positions can be achieved.</p> |
|---|--|--|