

# Agency Lending through Eurex Clearing CCP Programme

## **Product Guide**

## Agency Lending through Eurex Clearing CCP Programme Product Guide

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Eurex Repo is a Deutsche Börse Group company.

## Foreword

This Guide (the “Product Guide”) describes the Clearstream Banking Agency Lending through Eurex Clearing CCP product (the “Programme”) as defined in the Clearstream Banking Securities Lending CCP Agency Agreement (the “CCP Agency Agreement”), as amended from time to time. The CCP Agency Agreement contains definitions of terms used herein with an initial capital letter.

This Product Guide is a Governing Document as defined in Clearstream Banking's General Terms and Conditions. In the event of any conflict between Clearstream Banking's General Terms and Conditions and this Product Guide and other Governing Documents, the General Terms and Conditions shall prevail.

This Product Guide describes the service step-by-step from the perspective of the Lender.

- [“Overview”](#) on page 1 highlights the unique features and benefits of the service for Lenders and Clearstream's roles in the process.
- [“Credit risk”](#) on page 3 provides a complete understanding of the protection and security the Product offers. It also summarises how the collateral agent minimises Lender's risk.
- [“Getting started”](#) on page 4 provides generic information about the program and describes the steps needed to become a Lender in the Programme.
- [“Operation of the Programme”](#) on page 5 provides an illustration of the life cycle of a loan.
- [“Billing”](#) on page 9 explains the mechanics of how Clearstream Banking pays the Lender for the service.
- [“Glossary”](#) on page 15 provides definitions of terms associated with the service.

All documents mentioned and referenced in this Product Guide can be found on the Clearstream Banking website, [www.clearstream.com](http://www.clearstream.com), under:

Key documents / ICSD / Global Securities Financing

**Note:** All times shown in this Guide are Central European Time (CET).

# Agency Lending through Eurex Clearing CCP Programme

## Legal aspects

The governing document for the Programme is the Securities Lending CCP Agency Agreement (the "CCP Agency Agreement"). The agreement is governed exclusively by Luxembourg law, which means that it benefits from clear, efficient and protective laws on securities and pledges.

Features of the agreement include:

- Pledge on the Collateral for Lender holding a Specific Lender License;
- Clearstream Banking acting as Agent Lender in all loans;
- Eurex Clearing A.G. ("ECAG") acting as central counterparty in all loans; and
- Clearstream Banking acting as Collateral Agent

On top of the CCP Agency Agreement, the following is also required from the Lender:

- A Specific Lender License from Eurex Clearing;
- Be a trading member of Eurex Repo; and
- Sign the CMSA for collateral receiver, as well as its side letter from Eurex Clearing.

## Client Services

The daily administration of the Programme is handled by a dedicated team in Luxembourg as follows:

Group telephone: +352-243-38112  
Group fax: +352-243-38201  
Group email: [strategiclending@clearstream.com](mailto:strategiclending@clearstream.com)  
SWIFT address: CEDELULL

The operations centre is open from 07:00 to 18:00 Central European Time.

### Contact

For further information about this Product Guide, or if you have specific questions regarding Clearstream Banking's CCP Agency programme, please contact your local Global Securities Financing Sales team.

[strategiclending@clearstream.com](mailto:strategiclending@clearstream.com)  
[www.clearstream.com](http://www.clearstream.com)

### Global Securities Financing services

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London	+44-(0)20-7862-7626
Singapore	+65-6597-1622
Hong Kong	+852-2530-7411
Dubai	+971-4-331-0644
New York	+1-212-309-8882

Alternatively, please contact your Customer Service or Relationship Officer.

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## Overview

The Programme provides Customers with the opportunity to enhance the revenues that can be realised as a Lender by offering access to the wholesale trading market through Eurex Clearing CCP. This market is driven by demands for strategic lending rather than for lending of last resort for automatic failing trades. The Programme is a dynamic service designed to increase Lender revenues by matching the high demand in this market with the supply available from Lender portfolios, while keeping the risk low by using central clearing.

Figure 1 below shows a simplified model of the Programme identifying the key elements and participants.

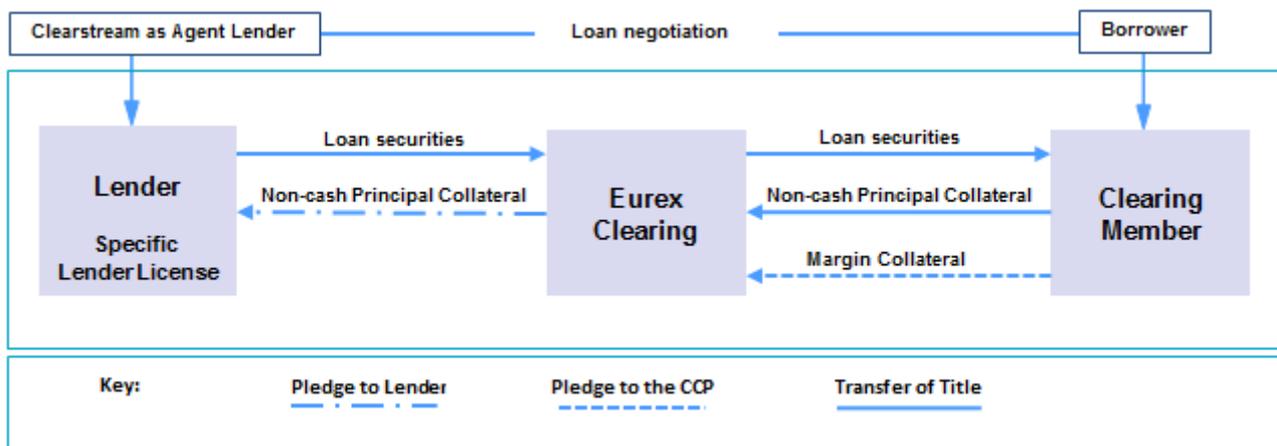


Figure 1. Key elements of the Programme

## Role of Clearstream Banking

Clearstream Banking fulfils a facilitating role in the Programme as follows:

- Clearstream Banking acts as lending agent arranging the loans between the Borrower and the Lender, through its existing network, and by its experienced distribution team. This optimised distribution to Clearstream Banking community of borrowers through dedicated close-to-market desks negotiating the best possible rates on behalf of Lenders as well as an automated distribution via a securities lending trading platform ensure best revenues on the portfolio.
- Clearstream Banking undertakes administrative and operational function on principal and collateral (accounts movements, recalls, returns, rerates, income events and corporate actions...) thus saving the overhead costs for Lenders of arranging the loans of the Securities themselves. Provides a high level of automation with no IT cost on the Lender side.
- Clearstream Banking also plays the role of triparty collateral agent in the Programme.

# Agency Lending through Eurex Clearing CCP Programme

## Role of Eurex Repo

Eurex Repo fulfils the role of third party flow provider, trading platform with the borrowers for the Programme. This is completely transparent for the Lenders since the platform is operated by the Agent Lender.

## Role of Eurex Clearing CCP

Eurex Clearing fulfils the role of central counterparty to the loan. Eurex Clearing steps in between the Lender and the borrower at trade date, via the process of “novation”. Then, it becomes the unique legal counterparty of the Lender.

## Benefits and features

The special features of the Programme for Lenders include:

- Transparent and standardised risk management & default procedures;
- Lending CCP guarantees the return of the loan and collateral securities;
- Offers protection from counterparty default: lines of defence waterfall ensures loss coverage in normal and extreme market conditions;
- Eurex Clearing ensures full collateralisation and daily monitoring of the loan, using Clearstream Banking as Collateral Agent;
- Membership structure: the Lender holds a Specific Lender License; utilises a “pledge model” for non-cash collateral - Beneficial Owners do not pay margin for the related transactions;
- Clearstream Banking manages the connection to the CCP via a Third Party Flow Provider (Eurex Repo) which is the mandatory interface to Eurex Clearing. Clearstream Banking proposes a full STP infrastructure that will maximise the business potential of the portfolio;
- Collateral Value of the loaned Securities retained by Lenders;
- Anonymity is preserved at trading level. No ALD<sup>1</sup> requested;
- No credit line necessary on the final borrowers, this is the ideal solution for big volumes;
- Increased portfolio yield, plus custody fees waived on lent positions;
- Automatic Recall procedure that takes into consideration matched and unmatched pending delivery instructions for Lenders and unmatched receipt instructions for Lender’s counterparties or where Lenders have specifically requested the return;
- Full rights to income proceeds retained by Lenders;
- Lender's ability to limit their value for lending;
- Automated Securities administration reducing overhead costs for Lenders with Clearstream Banking managing all operational and administrative processes;
- Daily and monthly reports, using flexible communication options including SWIFT and CreationOnline;
- Flexibility and freedom as Clearstream Banking gives Customers the opportunity to further restrict their lending activity for as little or as long as they want by using the profile options; and
- Single legal relationship and agreement with Clearstream Banking acting as lending and collateral agent.

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1. The Specific Lender License holder will be disclosed in the member section of the Eurex Clearing website.

# Credit risk

## Collateral eligibility criteria

Loan securities are transferred from Lender to Borrower in exchange for loan collateral. The loan collateral is called Principal Collateral. The exchange of Principal Collateral is considered as one leg of the loan transaction. A clear distinction is made between the Principal Collateral in the loan transaction and the Margin Collateral which is provided to Eurex Clearing.

Specific Lender License holders receive non-cash Principal Collateral in a way of first ranking pledge.

Eurex Clearing A.G. decides whether a security is eligible as Principal Collateral. From a risk perspective, Eurex Clearing A.G. can unilaterally modify the Collateral Eligibility Criteria from time to time, thus taking into account potential changes to the market conditions. Criteria such as the instrument type, issue characteristics, issuer country, industry sector, currency denomination and the issuer rating are used to determine whether a security is to be accepted.

The list of Principal Collateral instruments is published daily on the [Eurex Clearing Website](#).

Furthermore, the Lender has the opportunity to customise his own collateral schedule as a subset of the list of Eurex Clearing:

- By using specific Principal Collateral baskets for Securities Lending through CCP, defined by Clearstream Banking as collateral Agent.<sup>1</sup>

## Coverage Value

The Coverage Value in Principal Collateral of a loan is equal to the market value of the Securities according to Eurex Clearing's pricing.

## Pledge

Specific Lenders License holders receive a first-ranking pledge on the Securities used as Principal Collateral.

The Collateral received by Clearstream Banking is pledged in favour of the Lender and registered in a specific Collateral Account opened in the name of Eurex Clearing.

## Collateral maintenance

Positions pledged as Principal Collateral are reviewed in accordance with fluctuations in market values. While the loan is outstanding, all collateral is marked to market daily, including collateral top-ups and returns according to Eurex Clearing pricing.

## Counterparty risk

Once the loan is novated Eurex Clearing stands between CM Lender and CM Borrower and becomes the legal counterparty. Eurex Clearing mitigates counterparty risks to a single contractual partner. Eurex Clearing protects against the risk of default of Clearing Members. The keystone of Eurex Clearing's security system is margin, which has to be covered in cash or securities which are deposited by Clearing Members as collateral for a given position.

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1. Clearstream Standardised baskets can be found on the Clearstream Banking website, [www.clearstream.com](http://www.clearstream.com), under Key documents / ICSD / Global Securities Financing / CmaX product guide.

# Agency Lending through Eurex Clearing CCP Programme

## Getting started

### Securities accepted for lending

Eurex Clearing defines the list of securities accepted for lending. This list is published every day on [Eurex Clearing website](#).

However, only debt instruments (straight bonds, convertible bonds, cum warrants, floating-rate notes and zero-coupon bonds) of Eurex Clearing loan instruments list are eligible for lending in the Programme.

### Account setup and participation level

To take advantage of the Programme, the Customer signs the Execution Page of the “CCP Securities lending agency service agreement for SLLH”. An automatic Lender makes Securities available for lending that can be used without prior consultation with the Lender.

If a Lender wants to limit lending from their portfolio, they can do so by completing the Lender Profile authorisation form, which can be found on the Clearstream website. This allows profiling to be specified at several levels.

### Intermediary account

To take advantage of the Programme, the Lender must open a technical intermediary account. This account is free of charge for opening and maintenance. The Lender will give a POA to instruct on this account to Clearstream Banking and Eurex Clearing. No reporting is allowed on the technical intermediary account. The Lender will not be allowed to instruct on this account.

The purpose of the technical intermediary account is to limit the POA of Eurex Clearing to only the assets on which a loan has been agreed.

# Operation of the Programme

## Reserving a loan

At trade date, Clearstream Banking instructs by Power of Attorney the transfer of the loan securities from the Lender account to the Lender Technical Intermediary account, with value date equal to the settlement date of the loan.

The loan will keep the initial loan identifier given at the trade date.

## Delivery Management Process

### Pre-delivery obligation

Within the standard loan settlement processing, Eurex Clearing coordinates the exchange of loan securities versus collateral. This happens in several steps. The borrower always delivers the principal collateral/loaned securities first, and then the lender is debited of loaned securities/released of pledge principal collateral. This means that the lender benefits from pre-collateralisation of its loaned securities. In the event that the Borrower is not providing the required principal collateral/loan securities, Eurex will not start collecting the loan securities/principal collateral from then Lender.

## Loan Opening Settlement Process

On settlement date, the loan opening follows the following settlement process:

1. Clearstream settles the delivered FOP from the Lender account to the Lender technical intermediary account (the instruction was entered on trade date);
2. Eurex Clearing instructs by Power of Attorney the transfer of the non cash Principal Collateral from the Borrower account to the Eurex Clearing account;
3. The principal Collateral is immediately pledged on the Eurex Clearing account in favour of the lender;
4. Eurex Clearing instructs the transfer of the loan securities from the Lender Technical Intermediary account to the Eurex Clearing account;
5. Eurex Clearing instructs the transfer of the loan securities from Eurex Clearing account to the Borrower account.

The value of the loan and the lending rate is decided at trade date and, unless otherwise specified, this value shall remain for its duration. Lenders will be notified of the loan opening via the settlement feedback of instruction between the Lender account and the Lender technical intermediary account.

For an explanation of loan reporting, please see the Reporting Guide for Agency and Agency CCP Lending.

## Loan maintenance

### Partial reimbursement of a loan

If a Lender receives part of the loaned Securities back during the life cycle of a loan, an FOP instruction will be sent to the Lender debiting the Lender's technical intermediary account and crediting the Lender's account with the loaned amount. The loaned amount and the loan value will be reduced, but the Loan Number will remain unchanged. Fees will be calculated accordingly.

# Agency Lending through Eurex Clearing CCP Programme

## Recall time lines

A Recall is triggered by the Lender's notification to Clearstream Banking by authenticated means of communication, upon the Lender's matched/unmatched<sup>1</sup> delivery instruction or the receipt instruction for the Lender's counterparty (no earlier than three Business Days before the requested settlement date of the instruction).

The Recall Period is determined as follows:

- Recalls triggered **before** 10:45 CET start on the same day.
- Recalls triggered **after** 10:45 CET start on the following Business Day.
- The maturity date of the recall shall be the last day of the standard settlement period of the relevant cash markets for the settlement of the Equivalent Loaned Securities applicable to the date of receipt of such Recall request, as defined in the Eurex Clearing conditions.

## Closing a loan

### Loan Closing Settlement Process

A loan will close in the following circumstances:

- The return of Securities from the Borrower subsequent to its request or subsequent to the Lender's request (Recall);
- A request from the Lender to receive Cash reimbursement equal to the market value of the Securities on loan as part of the Recall process;
- A mandatory or a voluntary corporate action with a reimbursement in Cash or equivalent securities; or
- A redemption of the loaned Securities (no settlement instruction are generated due to the security reaching maturity).

The Lender(s) involved in the loan will automatically receive, through an FOP instruction, the corresponding Securities from its technical intermediary account.

On settlement date, the loan closing follows the following settlement process:

1. Eurex Clearing instructs by Power of Attorney the transfer of the loan securities from the Borrower account to the Eurex Clearing account;
2. Eurex Clearing instructs by Power of Attorney the transfer of the loan securities from the Eurex Clearing account to the Lender Technical Intermediary account;
3. Clearstream settles the delivered FOP from the Lender technical intermediary account to the Lender account;
4. Eurex Clearing instructs the removal of the pledge of the non-cash Principal Collateral in favour of the Lender, back to the Eurex Clearing account;
5. Eurex Clearing instructs the transfer of the non-cash Principal Collateral from the Eurex Clearing account to the Borrower account.

For an explanation of loan reporting, please see the Reporting Guide for Agency and Agency CCP Lending.

## Custody events

### Income events

Clearstream Banking will manufacture all coupon/dividend payments, based on the Lender's coupon/dividend requirements, and redemption proceeds, either full or partial, on payment date. For a redemption, no closing instruction is generated for the Lender.

### Corporate actions

As a general rule, in the event of a corporate action, the respective Securities will no longer be eligible for lending or borrowing.

### Voluntary/mandatory with choice events

#### Current holdings

Clearstream Banking will notify Lenders, via the customer's preferred communication method, of any upcoming corporate events on lent and held-free positions. Details of these notifications can be found in the Reporting Guide for Agency and Agency CCP Lending.

In the case of corporate actions that are voluntary or mandatory with choice, Lenders should notify Clearstream Banking by the necessary deadline in order to participate in the corporate action. The notice should include the Lender's intentions for the lent position. Participation in the corporate action related to the lent position will be actioned by Clearstream Banking, meaning that the security proceeds resulting from the corporate action will be reflected as an on-loan position in the books of Clearstream Banking, as if the Lender had participated, and will be redelivered at the end of the loan.

Lenders that want to recall their lent positions before the corporate action are requested to provide notice to Clearstream Banking in sufficient time to allow for the return of the Securities.

Clearstream Banking may, at its discretion, recall the Securities

For example, **Exchange full or partial:**

If a security is subject to an exchange offer and the Lender sends notice to participate before the Clearstream Banking deadline, then, on exchange date, the loan in the old security code will cease and a new loan in the new security code will be opened.

For a partial exchange, the loan in the old security will cease; a new loan will be opened in the new security (reflecting the amount being exchanged) and another new loan will be opened in the old security (reflecting the amount not being exchanged).

Any Cash distribution that is due is then debited from the Principal and paid to the Lender.

### Voting rights and consent fees

Lenders that want to exercise their voting rights should recall their Securities within the stipulated deadlines. However, the Lender can only participate in the vote up to the amount that they hold on their account on record date.

Compensation for consent fees (or other incentive or similar fees paid as an incentive to participate in a corporate action) will be provided to the Lenders. In order to benefit from such fee, the Lender must have recalled the Securities within the stipulated deadlines.

If the Principal fails to return the Securities in time to enable participation, then the necessary Cash payment will be debited from the Principal and paid to the Lender.

The Lender will not be able to receive such compensation fee if the Recall deadline has not yet been reached or if the record date has been passed.

# Agency Lending through Eurex Clearing CCP Programme

## Mandatory events

If a corporate action for which no instruction is required occurs on loaned securities, Clearstream Banking will perform the necessary action.

For example, **Call option:**

If a security is subject to a call option, the loan will cease and the Cash distribution that is due is debited from the Borrower and paid to the Lender.

# Billing

## Commission fees

Fees associated to loans are billed on a per calendar month basis.

Customers are credited on a monthly basis in Euros on the 15th day of the month following the billed month. If the 15th falls on a non-Business Day, Clearstream Banking bills on the next Business Day.

Details of credit income are provided in the monthly Clearstream Banking netted invoice.

## Calculation of commission fees

Customers are charged at one point during the day: after the end of day processing. On daily basis, loans are re-valued and this Market Value is used to calculate the fee each day. So, for example, if a loan is open for three days, the below calculation is used with a different Market Value for each of the three days, accrued each day, and the total is the income for that loan.

The rate stays the same unless the loan is re-rated by Clearstream Banking.

All calculations use the gross rate. The fee is split 50:50 between the Lender and Clearstream Banking.

The calculations are as follows:

$$\text{Lenders: } \frac{\text{Quantity lent} * \text{Market value per unit in EUR} * \text{Lending rate (gross)}}{360}$$

The Lender will receive 50% of the gross fee.

Clearstream Banking will then pay the Eurex Repo Maintenance fees, Eurex Clearing Maintenance, System and Clearing fees which are due by the Lender, out of Clearstream Banking's revenue.

## Reporting

All reporting for the CCP Agency Lending can be found on our website in a separate document, The Reporting Guide for Agency and Agency CCP Lending. Here Clearstream describes and details all the different types of reports available to Customers in order to manage the day to day administration of the Agency CCP loans.

# Agency Lending through Eurex Clearing CCP Programme

## Glossary

### **Agency Lending through Eurex CCP Programme**

A lending Programme aimed at the wholesale market where borrows are for strategic purposes, where Clearstream Banking is acting a lending and collateral agent and where Eurex Clearing is the Central Counterparty

### **Agency Lender through Eurex CCP**

A Clearstream Banking Customer who has made loans or has agreed to make available Securities for Loans in the Clearstream Agency Lending through Eurex CCP Programme

### **ASL - Automated Securities Lending**

A programme that facilitates the borrowing of Securities to prevent settlement failures. Such lending is usually short-term.

### **ASLplus Programme**

A lending Programme aimed at the wholesale market where borrows are for strategic purposes.

### **CCP Borrower**

A Eurex Clearing member who borrows securities from the Clearstream Agency through CCP programme. The CCP Borrower is also using Eurex Repo as Third Party Flow Provider.

### **Eurex Clearing**

The central counterparty to the loan.

### **Eurex Repo**

The third party flow provider, trading platform with the borrowers for the Programme.

### **FOP**

Free of payment (for instructions to transfer Securities without an associated transfer of funds).

### **Internal transaction**

An instruction for a transaction by book-entry between Clearstream Banking accounts.

### **Lender**

A Clearstream Banking Customer who has made loans or has agreed to make available Securities for Loans.

### **POA**

Power of Attorney.

### **Recall**

The process by which Securities are requested back from the Borrower to be returned to the Lender.

### **Securities Lending CCP Agency Agreement**

A Governing Document defining the rules of the Clearstream Agency Lending through Eurex CCP Programme.

### **Settlement**

The process whereby Securities (and corresponding funds, if any) are delivered (and credited) simultaneously to the accounts involved.

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