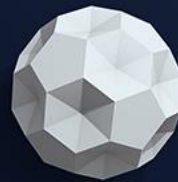


Deutsche Börse/London Stock Exchange

ACE Conference

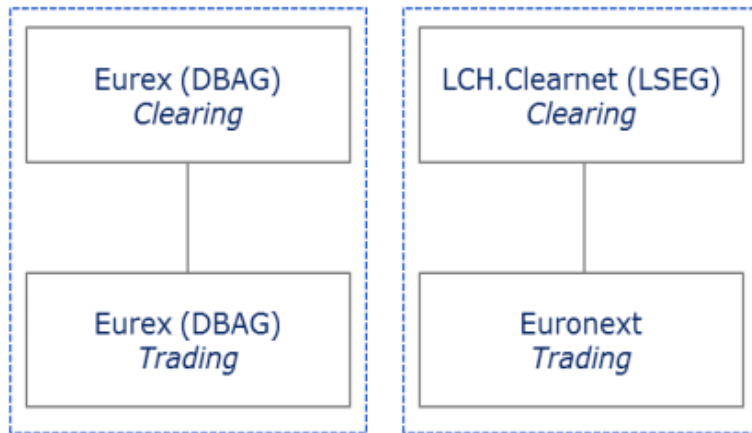


Lars Wiethaus
16 November 2017

CRA Charles River
Associates

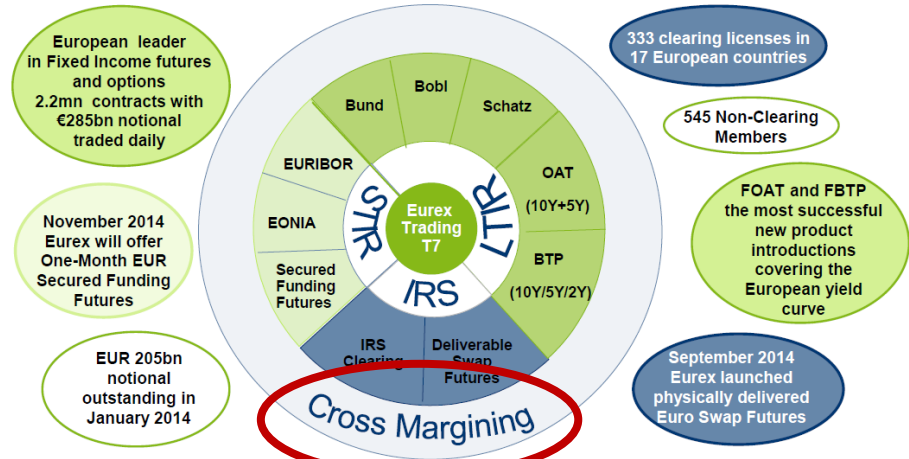
Financial derivatives: Two essential complementarities

1) Vertical: Clearing as an input for trading



2) Horizontally: Complementarities and network effects in clearing

Eurex is the only fully integrated listed and OTC derivatives trading and clearing platform



As the home of the European yield curve, Eurex will continue to integrate products and services to provide sustainable capital and operational efficiencies.



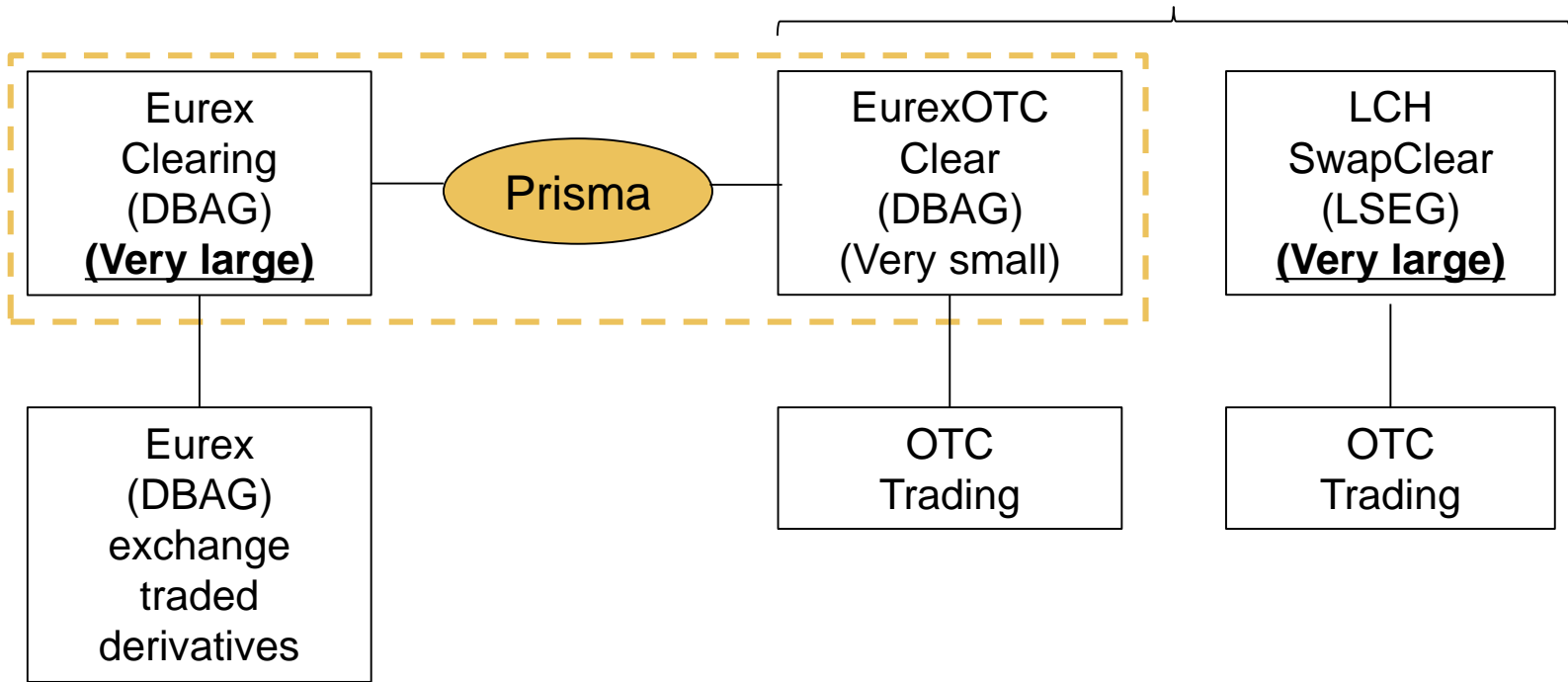
www.eurexclearing.com

European derivatives trading and clearing landscape

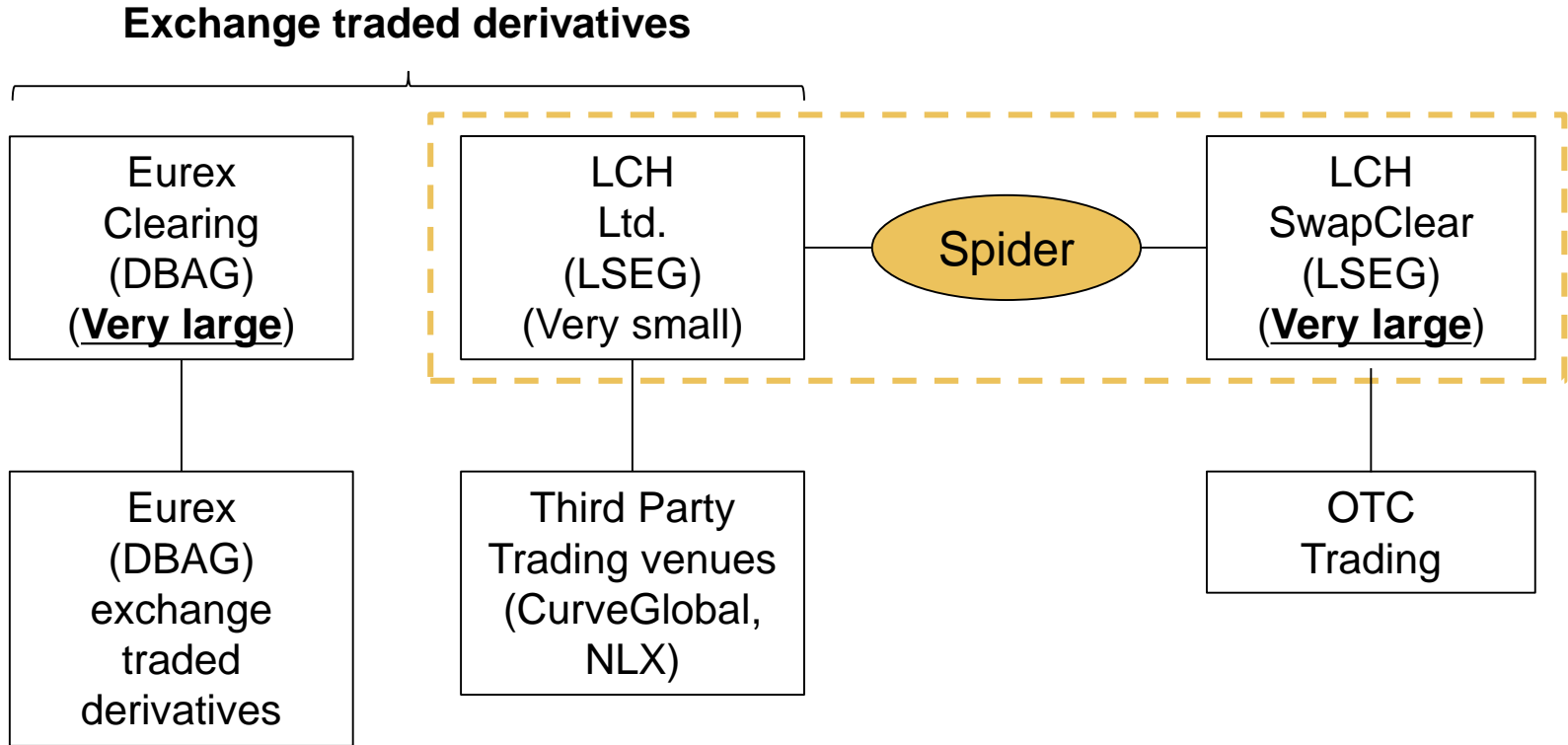
	DBAG		LSEG				
	Eurex (DBAG) Clearing + Eurex (DBAG) Trading	LCH SA (LSEG) Clearing + Euronext Trading	LCH Ltd. (LSEG) Clearing + OTC	LCH Ltd. (LSEG) Clearing + Curve Global/ NLX	ICE Clearing + ICE Trading	Others	
ETD: Single stocks derivatives	<u>Very large</u>	Decent	-	Very small	Decent	Small	
ETD: Short-term IRD	Very small	Very small	-	Very small	<u>Very large</u>	Small	
ETD: Long-term IRD	<u>Very large</u>	-	-	<u>Very small</u>	Decent	Small	
OTC: Clearing of IRS	<u>Very small</u>	-	<u>Very large</u>	-	-	Very small	
Integrated clearing services	<u>Very large</u>				Decent (no IRS)	-	

Clearing of OTC traded IRD (interest rate swaps)

Clearing of OTC traded IRD



Exchange traded derivatives



Prisma and (supposedly) Spider effects

"The analysis below of the various cross currency margin savings of various tenors between USD payer OTC IRS and EUR receiver OTC IRS and that of cross product margin savings between various tenor EUR receiver OTC IRS and Eurex Exchange's Euro-Schatz, Bobl, Bund and Buxl® fixed income futures **clearly show that cross product cross margin savings far outweigh that of cross currency cross margin savings.**"

Eurex
Clearing
(DBAG)
(Very large)

EurexOTC
Clear
(DBAG)
(Very small)

		USD Interest Rate Swap Payer				EUR Fixed Income short			
		2Y	5Y	10Y	30Y	Schatz (≈ 2y)	Bobl (≈ 5y)	Bund (≈ 10y)	Buxl (≈ 30y)
EUR	Interest Rate Swap	49%	48%	45%	45%	70%	62%	55%	57%
	Receiver	5Y	50%	48%	48%	46%	64%	69%	70%
		10Y	46%	42%	48%	48%	55%	61%	67%
		30Y	35%	29%	36%	40%	39%	43%	49%

Clearing of EURIBOR, fixed income futures and OTC IRS

Source: <http://www.eurexclearing.com/clearing-en/about-us/news/cross-margining-generate-margin-default-fund-capital-efficiency/1892428>

The fuller picture

- LCH and Eurex have invested and committed themselves hugely to compete for the clearing of exchange traded IRD and OTC traded IRD, respectively.
- Based on leveraging their large margin pools.
- **Fee and incentive structures** to attract exchange traded IRD and OTC traded IRD, respectively.
- EurexOTC Clear is the **next best alternative** for many of LCH's OTC (IRS) customers.
- EurexOTC Clear already signed up LCH's most **important customers**.
- **ICE will not replace the loss of competition** (smaller margin pool, no cross-margining tool, silo player – no “maverick”).

Wrap-up

- SIEC in ETD (single stocks) in principle remedied through **LCH SA divestment**.
- **Crucial question** whether SIEC due to DBAG's and LSEG's emerging activities in the clearing of OTC traded IRD and exchange traded IRD, respectively.
- **Various theories of harm applicable:**
 - **Vertical effects** in relation to third party trading platforms (Curve Global, NLX) hosted by LSEG's clearing services.
 - **Horizontal effects:** Simply hike-up of clearing prices 'across the board', even without any discrimination of third party trading platforms.
 - **Market for integrated clearing services** implies horizontal overlaps, in particular, in the clearing across OTC traded IRD and exchange traded IRD.

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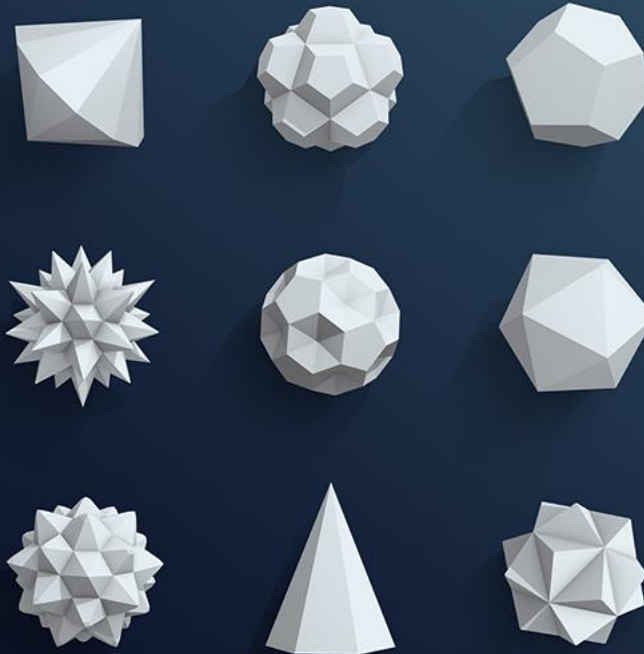
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16 November 2017