

**TESTIMONY OF THOMAS BOOK,
MEMBER OF THE EXECUTIVE BOARD,
ON BEHALF OF EUREX CLEARING
BEFORE THE UNITED STATES HOUSE OF REPRESENTATIVES
COMMITTEE ON AGRICULTURE**

DECEMBER 8, 2008

CHAIRMAN PETERSON, RANKING MEMBER GOODLATTE AND MEMBERS OF THE COMMITTEE, I APPRECIATE THIS OPPORTUNITY TO TESTIFY BEFORE YOU TODAY AND I THANK THE COMMITTEE FOR CALLING THIS HEARING ON MEASURES TO IMPROVE THE MARKET STRUCTURE FOR CREDIT DEFAULT SWAP ("CDS") TRANSACTIONS.

I AM THOMAS BOOK, A MEMBER OF THE EXECUTIVE BOARDS OF EUREX AND EUREX CLEARING AND I HAVE OVERALL RESPONSIBILITY FOR THE MANAGEMENT OF THE CLEARING BUSINESS.

EUREX CLEARING IS THE LARGEST CENTRAL COUNTERPARTY IN EUROPE AND IS THE GUARANTOR OF ALL EUREX TRANSACTIONS. IT IS LICENSED AND SUPERVISED BY THE GERMAN FEDERAL FINANCIAL SUPERVISORY AUTHORITY. IT IS ALSO RECOGNIZED BY THE U.K.'S FINANCIAL SERVICES AUTHORITY.

IT IS CRITICALLY IMPORTANT TO PROVIDE A CCP WITH RESPECT TO OVER-THE-COUNTER CDS CONTRACTS IN ORDER TO IMPROVE TRANSPARENCY, ENFORCE EFFECTIVE RISK CONTROLS AND INCREASE OPERATIONAL EFFICIENCY, THEREBY REDUCING SYSTEMIC RISK FOR FINANCIAL MARKETS.

THE BENEFITS OF CENTRAL COUNTERPARTY CLEARING TO THE OTC MARKET IN

CDS CONTRACTS INCLUDE:

1. REDUCTION OF GROSS CREDIT EXPOSURES AND MITIGATION OF COUNTERPARTY RISK THROUGH THE EFFECT OF MULTILATERAL NETTING AND COLLATERALIZATION OF REMAINING NET CREDIT EXPOSURES.
2. VALUATION OF RISK EXPOSURE BY AN INDEPENDENT, MARKET NEUTRAL ENTITY.
3. TRANSPARENCY IN COLLATERALIZATION INCLUDING THE DISCIPLINE OF DAILY MARKING-TO-MARKET OF EXPOSURES. AND
4. AUTOMATED BACK OFFICE PROCESSES RESOLVING CURRENT OPERATIONAL WEAKNESSES.

AN ALMOST EQUIVALENT AMOUNT OF CDS TRANSACTIONS ARE TRADED IN EUROPE, DURING EUROPEAN BUSINESS HOURS AND DENOMINATED IN EURO AS IS TRADED IN THE U.S. DENOMINATED IN DOLLARS. ACCORDINGLY, EUREX CLEARING STRONGLY BELIEVES THAT THERE ARE UNMISTAKABLE BENEFITS FOR U.S. MARKET PARTICIPANTS TO HAVING A EUROPEAN CLEARING ORGANIZATION SERVING THE GLOBAL MARKET. THESE ARE:

1. GREATER EFFICIENCIES BY USING EXISTING EUROPEAN CLEARING INFRASTRUCTURES FOR THESE EUROPEAN TRANSACTIONS.
2. GREATER EFFICIENCIES WITH RESPECT TO SETTLEMENT OF CDS CONTRACTS.
3. ENHANCED FINANCIAL SURVEILLANCE AS WELL AS MARKET SURVEILLANCE. AND
4. GREATER INNOVATION RESULTING FROM INCREASED COMPETITION.

OUR NEW CDS CLEARING SERVICE WILL BEGIN WITH ITRAXX® AND CDX® INDICES, FOLLOWED BY SINGLE NAME CDS. ITS KEY FEATURES ARE:

1. A LINK WITH DTCC'S DERIVSERV TRADE INFORMATION WAREHOUSE, ENSURING FULL COMPATIBILITY WITH EXISTING CDS BACK OFFICE INFRASTRUCTURE AND ENABLING AUTOMATED BACK-LOADING OF EXISTING TRANSACTIONS.
2. THE GUARANTEE FUND FOR CDS TRANSACTIONS WILL BE SEGREGATED TO AVOID COMMINGLING OF RISKS AND THE MARGINING SYSTEM IS SPECIALLY DESIGNED TO ADDRESS THE ASYMMETRIC NATURE OF THE CDS BUYER AND SELLER RISK PROFILE.
3. CLEARING WILL BE OPERATED BY EUREX CLEARING WITH OPEN ACCESS TO ALL ELIGIBLE CREDIT INSTITUTIONS. AND
4. EUREX CLEARING WILL ESTABLISH A SEPARATE ENTITY TO SHARE GOVERNANCE AND CONTROL WITH MARKET PARTICIPANTS.

WITH RESPECT TO OUR RECOMMENDATIONS FOR AN APPROPRIATE REGULATORY FRAMEWORK, WE NOTE THAT SEVERAL WITNESSES TO THIS COMMITTEE HAVE IDENTIFIED AREAS OF THE CURRENT U.S. LEGAL FRAMEWORK THAT ARE SUBJECT TO DIFFERING INTERPRETATION. CLARIFICATION WITH RESPECT TO THESE ISSUES WOULD PROVIDE GREATER LEGAL CERTAINTY AND WOULD FACILITATE BOTH DOMESTIC AND NON-U.S. CCPs WITH UNDERSTANDING AND COMPLYING WITH THE LEGAL REQUIREMENTS.

WE FURTHER NOTE THAT THE CURRENT REGULATORY FRAMEWORK WHICH APPLIES TO A FOREIGN MULTILATERAL CLEARING ORGANIZATION OFFERING CLEARING SERVICES IN THE UNITED STATES PROVIDES A SUCCESSFUL TEMPLATE FOR ADDRESSING THIS GLOBAL MARKET. THIS REGULATORY FRAMEWORK EXISTS UNDER THE PROVISIONS OF CURRENT LAW, WHICH THIS COMMITTEE WAS INSTRUMENTAL IN ENACTING IN 2000. THIS EXISTING REQUIREMENT ENSURES THAT THERE IS REGULATORY COMPARABILITY

BETWEEN U.S. AND NON-U.S. CLEARING ORGANIZATIONS AND REMOVES THE POSSIBILITY OF REGULATORY ARBITRAGE.

FINALLY, IT SHOULD BE NOTED THAT ALTHOUGH THE BENEFITS OF CLEARING ARE SIGNIFICANT FOR THE INTEGRITY OF FINANCIAL MARKETS, IT CANNOT BE ASSUMED THAT CENTRALIZED CLEARING WILL BE AUTOMATICALLY AND BROADLY ACCEPTED BY CURRENT OTC MARKET PARTICIPANTS. AS A CONSEQUENCE, CONGRESS SHOULD TAKE INTO ACCOUNT WHETHER THE REGULATORY ENHANCEMENTS THAT IT IS CONSIDERING WILL REINFORCE AND BE SUPPORTIVE OF THE MIGRATION OF CDS TRANSACTIONS FROM THE CURRENT BILATERAL STRUCTURE TO REGULATED AND TRANSPARENT CCPs.

EUREX CLEARING UNDERSTANDS THE IMPORTANCE OF PUBLIC CONFIDENCE IN THE REGULATORY OVERSIGHT OF LISTED AND OTC DERIVATIVES AND WE APPRECIATE THE OPPORTUNITY TO WORK WITH THE U.S. REGULATORY AUTHORITIES WITH RESPECT TO OUR PLANS TO OFFER CLEARING SERVICES FOR CDS TRANSACTIONS.

EUREX CLEARING IS HONORED TO HAVE BEEN INVITED TO PRESENT ITS VIEWS TO THIS COMMITTEE AND APPRECIATES THE OPPORTUNITY TO DISCUSS THESE CRITICALLY IMPORTANT ISSUES. I AM HAPPY TO ANSWER YOUR QUESTIONS.