



CME CLEARING

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# THE BEST RISK MANAGEMENT STARTS WITH SECURITY

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 **CME Group**

A CME/Chicago Board of Trade/NYMEX Company

In today's market environment, effective risk management is a business imperative. Risk management opens the door to opportunity. It supports faster and smarter decisions. It makes essentials like food and energy more efficient to bring to market. It encourages investment and economic progress around the world. And although risk management can be measured in dollars, euros and yen, it also depends on the tangible benefits of transparency, liquidity, trust and confidence. That's what CME Group's centralized clearing capability brings to the global derivatives marketplace it serves.

By acting as the counterparty to every trade, CME Clearing virtually eliminates counterparty credit risk, meaning that for every trade completed on our exchange, we guarantee the financial soundness of both parties. We lead the industry in providing a comprehensive set of risk management services – providing you the security and confidence market participants need to operate, invest and grow.

By being at the center of every transaction, we can protect everyone's interest and ensure the integrity of the marketplace. And help you rise above the risks.

## \$7 BILLION IN SAFETY AND SOUNDNESS

CME Group is vitally aware of its role in international financial markets. We believe our financial safeguard system, designed for the benefit and protection of both clearing members and their customers, is second to none.

In more than a century of trading, there has never been a failure by a clearing member to meet a performance bond call or a delivery obligation; nor has there been a loss of customer funds resulting from the failure of a clearing member firm. We offer you the assurance of \$7 billion ready to help us mitigate systemic risk. That level of protection is something no other exchange or trading venue can offer a customer's business.

We know you want flexible execution: the choice to use our trading floors, electronic trading, OTC transactions or cleared-only services. We extend the benefits of central counterparty clearing – including segregation of customer funds – to all regulated futures products we offer.

## TRANSPARENT MARKETS – INSIDE AND OUT

Throughout the ups and downs of a trading day, customers want to know where they stand. CME Clearing's twice daily mark-to-market gives you the transparency you need.

When customers originate a position on our markets, they are required to put up a performance bond, which serves as a sort of insurance premium paid to CME Clearing to cover the maximum

one-day loss a position could suffer. Whether customers' positions move with or against them, those profits or losses are "marked" to transparent prices twice daily. This risk management practice stands in stark contrast to the OTC market, where payments may not be required for a month or a quarter at a time.

The CME Group Audit Department, in conjunction with other self-regulatory organizations, operates a sophisticated surveillance program to monitor the financial health of clearing members.

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## CME CLEARING'S UNBIASED VALUATION CREATES A LEVEL PLAYING FIELD FOR CUSTOMERS.

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We monitor positions in real time, and pass on trading data to clearing members to help them manage their firms' risk in real time, too.

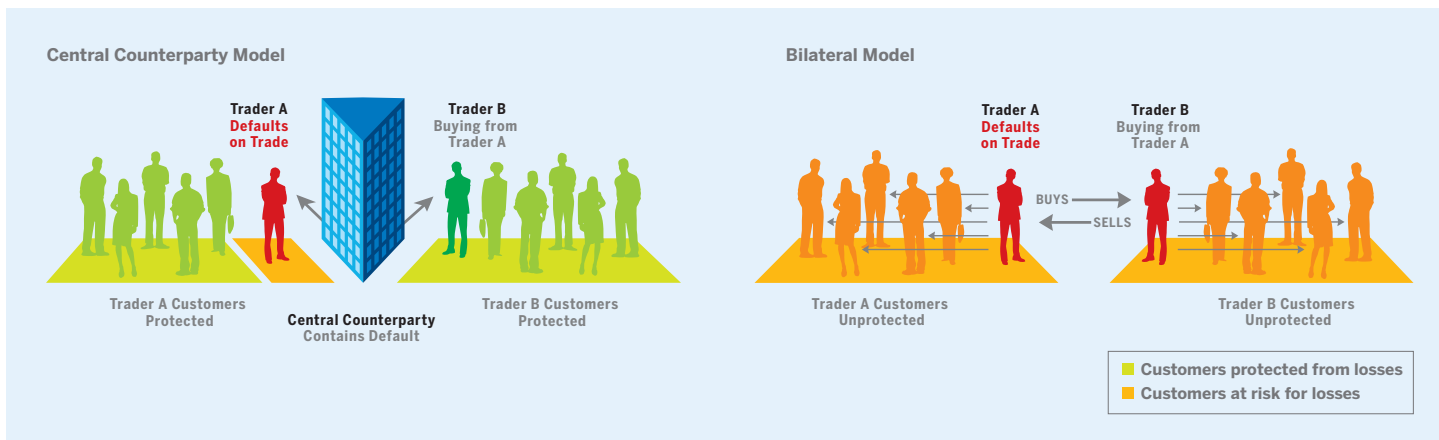
Together, these efforts help ensure that any concerns are addressed before they become a problem, whether for the clearing member, the customer or the marketplace as a whole.

And, in terms of price transparency, CME Clearing is market-neutral. We don't have a portfolio being traded or cleared, so we don't have a stake in a particular settlement practice or price.

## WHAT CAN CME CLEARING PROVIDE THAT THE OTC MARKET CAN'T?

Through CME Clearing, firms such as hedge funds, money managers, proprietary trading firms and global and regional banks have access to the same performance guarantee for privately negotiated and plain vanilla over-the-counter products that has traditionally been available only with exchange-traded products. Why use CME Clearing?

- **Your counterparty credit risk is virtually eliminated** as CME Clearing becomes the buyer to every seller and the seller to every buyer. We guarantee the financial soundness of both parties.
- Your portfolio has the full benefit of **funds segregation** for cleared futures products. Your funds are not subject to creditor claims against your clearing firm should it become financially unstable or insolvent. And, your funds can be transferred to another clearing firm if needed.
- **Accumulation of debts/losses is limited** and transparency is achieved as CME Clearing marks your positions to market twice daily.
- **More than \$7 billion in financial safeguards** stand ready to mitigate systemic risk. In over a century of excellence, CME Clearing has never had a default.
- **ISDA documentation is not required**, so your risk is mitigated more efficiently.
- **Your choice of execution is preserved – and made safer.** You have the flexibility to manage your risk on-exchange or with cleared-only services for OTC products, all with the performance guarantee of CME Clearing.



**A CENTRAL COUNTERPARTY—  
WITH THE UNIQUE STRENGTH OF CME GROUP**

CME Clearing eliminates concerns over counterparty risk through a model that requires us to act as the seller to every buyer and the buyer to every seller. By taking on this role and obligation, CME Group steps in as a neutral party between both buyer and seller and contains the potential default risk of either party to a trade (see above diagram). No other exchange assumes this responsibility at the scale — and with the track record — of CME Group.

With the confidence that comes with minimized counterparty risk, you are able to trade more, knowing that CME Clearing will guarantee the performance of each contract — even if the person on the other side of your trade can't meet his or her obligations. In more than a century, CME Clearing has never experienced a default.

**THROUGH MULTILATERAL NETTING,  
CME GROUP ALSO HELPS YOU GAIN CAPITAL  
EFFICIENCIES AND DECREASE YOUR CREDIT  
EXPOSURE — SERVICES NOT AVAILABLE  
IN THE OTC MARKET.**

**EXPERIENCE THAT DRIVES EFFICIENCY**

CME Clearing prides itself on developing innovative solutions for the derivatives marketplace and providing exceptional superior customer service 24 hours a day, six days a week. Our services have a proven track record of helping customers manage risk during periods of unprecedented growth as well as at times of economic uncertainty.

In processing approximately 15 million trades each day, CME Clearing settles accounts, clears trades, collects and maintains performance bonds/margins, regulates delivery and reports data to guarantee the performance of every contract.

We don't keep this experience to ourselves. Our team has set some of the standards currently used by the global financial services community to manage risk. For example, the Standard Portfolio Analysis of Risk (SPAN) was developed by CME Clearing, but now helps more than 50 exchanges and market participants all over the world evaluate the risk of their portfolios.

Also, through our clearing technology systems, we offer customers cost and operational efficiencies. Straight-through processing and post-trade management are two important advantages we offer — not only to make it easier for you to submit your trades to clearing, but also to help your back office do its job more effectively. Straight-through processing is now available for futures and options as well as for privately negotiated and OTC trades submitted to CME Clearing.

**For more information on the benefits of CME Clearing and our financial safeguards, visit the CME Clearing site at [www.cmegroup.com](http://www.cmegroup.com)**

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