

A Seamless Transition to the SEF Environment

January 2014

Overview

- CME Group OTC Clearing Update
- Regulatory Requirements
- SEF Workflows and CME Group Solutions
- Onboarding Overview
- Next Steps and Resources

Client Demand Drives Open Interest

Buy-side firms are overwhelmingly choosing CME Group

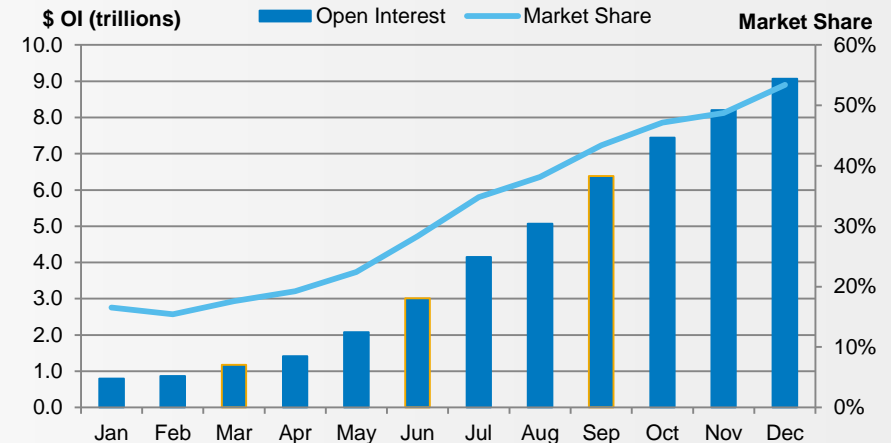
Over 415 global market participants have now cleared more than \$16.2 trillion in our OTC clearing solution, including:

- 145+ Hedge Funds
- 60+ Regional Banks
- 95+ Asset Managers
- 30+ Registered Swap Dealers
- 30+ Insurance Companies
- 20+ REITs
- 10+ GSEs

Other clients include Pension Funds, Endowments, Sovereign Wealth Funds, Corporations, and Proprietary Trading Firms

Open interest continues to trend upward, from \$3 trillion in June to \$9.1 trillion in December with market share increasing from 28% to 53% during this same period

OTC IRS Open Interest



March 11 – Category 1 Customers Clearing Mandate

- Swap Dealers
- Major Swap Participants
- Active Funds

June 10 – Category 2 Customers Clearing Mandate

- Commodity Pools
- Non-“Active Funds”
- Non-“3rd Party sub-accounts” “Predominantly Involved in Banking

September 9 – Category 3 Customers Clearing Mandate

- 3rd Party sub-accounts
- Pension Funds
- All Other Non-End-users

Cleared OTC IRS Product Scope

Existing Products

Fixed/Float*	Tenor				Index			
	Currency	Years				Months		
	11	15	31	51	1	3	6	
USD	■				●	●	●	LIBOR
EUR	■				●	●	●	EURIBOR
GBP	■				●	●	●	LIBOR
CAD	■					●		CDOR
JPY	■				●	●	●	LIBOR
CHF	■						●	LIBOR
AUD	■					●	●	BBR
SEK	■					●		STIBOR
DKK	■						●	CIBOR
NOK	■						●	NIBOR
NZD	■					●		BBR
HKD	■					●		HIBOR
SGD	■						●	SOR-VWAP
HUF	■						●	BUBOR
CZK	■						●	PRIBOR
PLN	■						●	WIBOR
ZAR	■					●		JIBAR
MXN	■				28d			TIIE-BANXICO

Zero Coupon Swaps	
USD EUR GBP	50 years
Overnight Index Swap (OIS)	
USD EUR GBP JPY	30 years
Basis Swaps	
USD EUR GBP JPY	51 years
AUD JPY	31 years
Fed Funds vs. Libor (USD)	30 years
Forward Rate Agreements (FRA)	
USD EUR GBP JPY	3 Days – 3 Years

ADDITIONAL EXPANSIONS

Early 2014: BRL, Swaptions

Regulatory Requirements

SEF Rules and STP Guidance

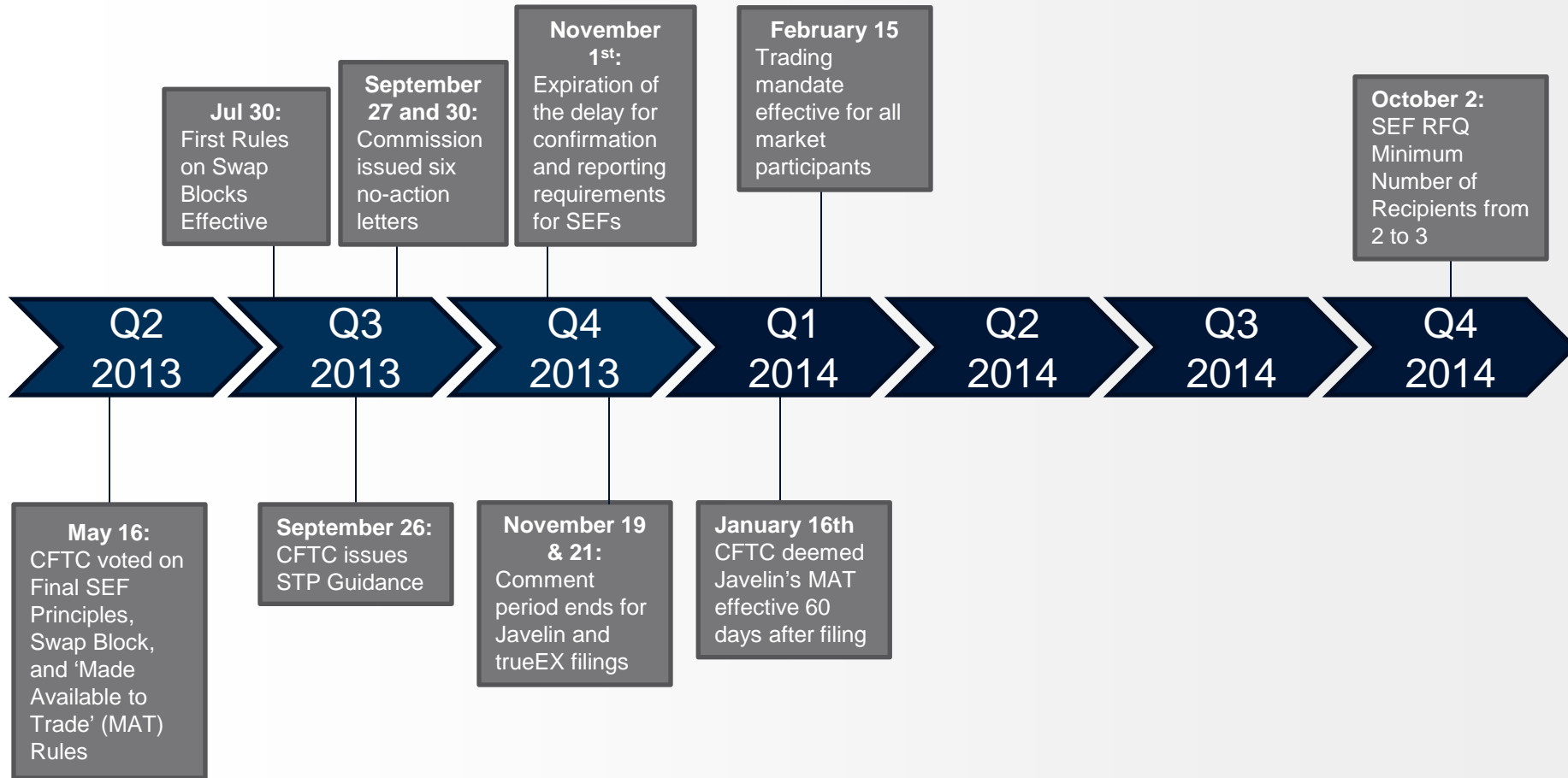
SEF Rules

- Defines the type of trading platforms that are required to register as SEFs, 15 core principles by which they must operate and the execution methods used to satisfy the trade execution requirement in section 2(h)(8) of the CEA
 - 21 firms have now registered with the CFTC
- Registration Requirements: Any trading system where multiple participants can submit prices and trade must register as a SEF unless registered as a DCM
- Execution Methods: Minimum trading functionality
 - Order Book
 - All SEFs must have an order book and all Required Transactions must be available in an order book
 - RFQ Initially sent to at least 2 market participants
 - After one year, minimum increases to 3 market participants
 - SEF may use “any means of interstate commerce” to provide these methods of execution

STP Guidance

- SEFs must provide the client’s clearing member the ability to pre-screen the order for risk limits
- Clearing members may not reject a trade that it previously approved prior to execution
- Acceptable clearing time reduced from 60 seconds to 10 seconds

Regulatory Update*



*All future dates are subject to change depending on regulatory approvals

MAT Overview

21 SEFs Filed with the CFTC

- Once the MAT was submitted, the CFTC allows for a 90-day review period, including a 30-day comment period, followed by a 30-day implementation period.
- The below MAT swaps will become subject to the trade execution requirement on SEFs and DSFs on February 15th for fixed-floating IRS

Fixed-to-Floating Interest Rate Swap					
Currency	U.S. Dollar (USD)	U.S. Dollar (USD)	U.S. Dollar (USD)*	Euro (EUR)	Sterling (GBP)**
Floating Rate Indexes	USD LIBOR	USD LIBOR	USD LIBOR	EURIBOR	GBP LIBOR
Trade Start Type	Spot Starting (T+2)	IMM Start Date (next two IMM start dates)	IMM Start Date (next two IMM dates)	Spot Starting (T+2)	Spot Starting (T+0)
Optionality	No	No	No	No	No
Dual Currencies	No	No	No	No	No
Notional	Fixed Notional	Fixed Notional	Fixed Notional	Fixed Notional	Fixed Notional
Fixed Coupon	Par	Par	Standard Coupon	Par	Par
Tenors	2, 3, 4, 5, 6, 7, 10, 12, 15, 20, 30 years	2, 3, 4, 5, 6, 7, 10, 12, 15, 20, 30 years	1, 2, 3, 4, 5, 7, 10, 15, 20, 30 years	2, 3, 4, 5, 6, 7, 10, 15, 20, 30 years	2, 3, 4, 5, 6, 7, 10, 15, 20, 30 years

Untranching Credit Default Swap Indices**		
Entities	Corporate	Corporate
Region	North America	Europe
Indices	CDX.NA.IG CDX.NA.HY	iTraxx Europe iTraxx Europe Crossover
Tenor	CDX.NA.IG 5Y CDX.NA.HY 5Y	iTraxx Europe 5Y iTraxx Europe Crossover 5Y
Applicable Series	At any time, the then-current on-the-run series and the preceding series that was replaced by the current one	

*Subject to execution requirements on SEFs and DSFs on February 22

**Subject to execution requirements on SEFs and DSFs on February 26

Reporting Requirements on a SEF

Reporting from a SEF

- Trades on a SEF are reported by the SEF to the SDR of their choice
- SEFs can submit one message to cover both cleared trade and SDR submissions

Reporting Timeline

- Must be submitted in real-time

Future Obligations

- The SEF does not have any on-going life-cycle reporting obligations

CME Swap Data Repository (SDR)

- SDR for credit, rates, foreign exchange, and other commodity asset classes

Block Trades executed on or pursuant to the rules of a SEF or DCM ALL ASSET CLASSES [CFTC Reg 43.5(d)(1) & (d)(2)]

Interest Rates & Credit		FX, Equities & "Other Commodities"	
YEAR 1	AFTER YEAR 1	YEAR 1	AFTER YEAR 1
Jul 30, 2013 – Oct 11, 2013	beginning on Oct 12, 2013	Jul 30, 2013 - Feb 27, 2014	beginning on Feb 28, 2014
30 minutes	15 minutes	30 minutes	15 minutes

Reporting Requirements - EMIR

<p>What must be reported?</p>	<ul style="list-style-type: none"> • All derivatives executed and any modification or termination; eventually collateral • Includes Exchange Traded Derivatives (“ETD”) and Over-The-Counter (“OTC”) • Asset Classes: Rates, Credit, FX, Commodities, and Equities
<p>By whom?</p>	<ul style="list-style-type: none"> • Dual reporting - All financial and non-financial counterparties and CCPs - this may be delegated provided there is no duplication in reporting • Organized Trading Facility (“OTF”) transactions to be reported, without duplication, by counterparty; however, OTF can be delegated provider
<p>To whom?</p>	<ul style="list-style-type: none"> • A registered or recognised trade repository
<p>How quickly?</p>	<ul style="list-style-type: none"> • Must be reported no later than the following working day (“EOD T+1”)
<p>When does it start?</p>	<ul style="list-style-type: none"> • OTC and ETD: 90 days after registration of first trade repository • 12 February 2014 is first possible date to report
<p>What has to be reported?</p>	<ul style="list-style-type: none"> • Counterparty data – 26 fields (participant IDs, valuations, etc.) • Common data – 59 fields (trade details, clearing, contract type, etc.)
<p>What records must be kept?</p>	<ul style="list-style-type: none"> • Any derivatives concluded and modified for at least 5 years following termination
<p>Is there any back-reporting?</p>	<ul style="list-style-type: none"> • Trades outstanding on 16 August 2012 and still outstanding at the reporting start date - within 90 calendar days • Trades outstanding on 16 August 2012 or were entered into on or after this date and are not outstanding on or after the reporting start date – within 3 years

**Fulfill your reporting requirement –
Report your ETD and OTC trades to the CME European Trade Repository (CME ETR)**

SEF Workflows and CME Group Solutions

Swap Execution Facilities

Key changes and challenges to client clearing workflow

Pre-Execution Credit Check

- The SEF mandate requires your clearing member to run a pre-execution credit limit check on each transaction, in order to provide certainty of clearing. This credit check will be dependent on the ability of CMs and SEFs to validate these limits in real time. In some cases, you (the client) will need to allocate your FCM limit across multiple SEFs
 - Within the off-SEF workflow, the FCM credit limit check takes place after the trade has been submitted to the CCP for clearing

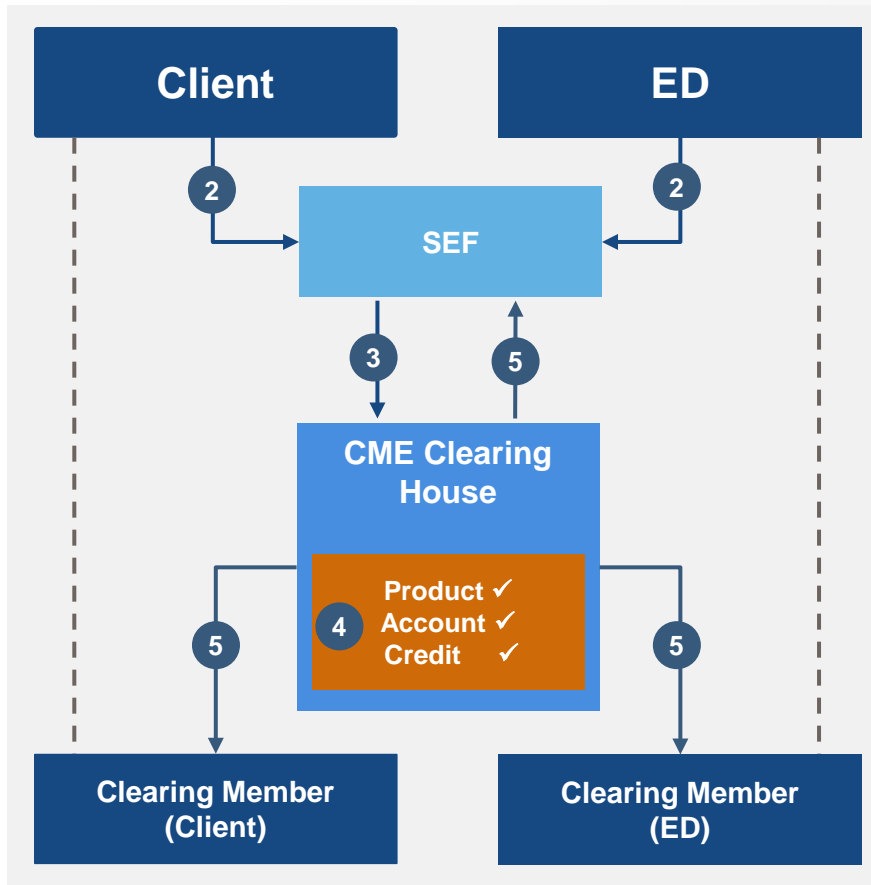
Allocations

- Within the off-SEF workflow, you will allocate orders post-execution utilizing affirmation platforms before the order is submitted to clearing. As a result of this pre-execution credit limit check requirement on SEF trades, you will need to either:
 - Allocate block orders on the SEF prior to execution
 - Utilize CME's bunched order solution to allocate post clearing

Trade Rejections

- Orders rejected for clearing by the CCP will be considered void. Orders rejected due to an operational issue may be resubmitted for clearing within a specific time period.
 - Within the off-SEF workflow, orders rejected for clearing may be resubmitted on trade date

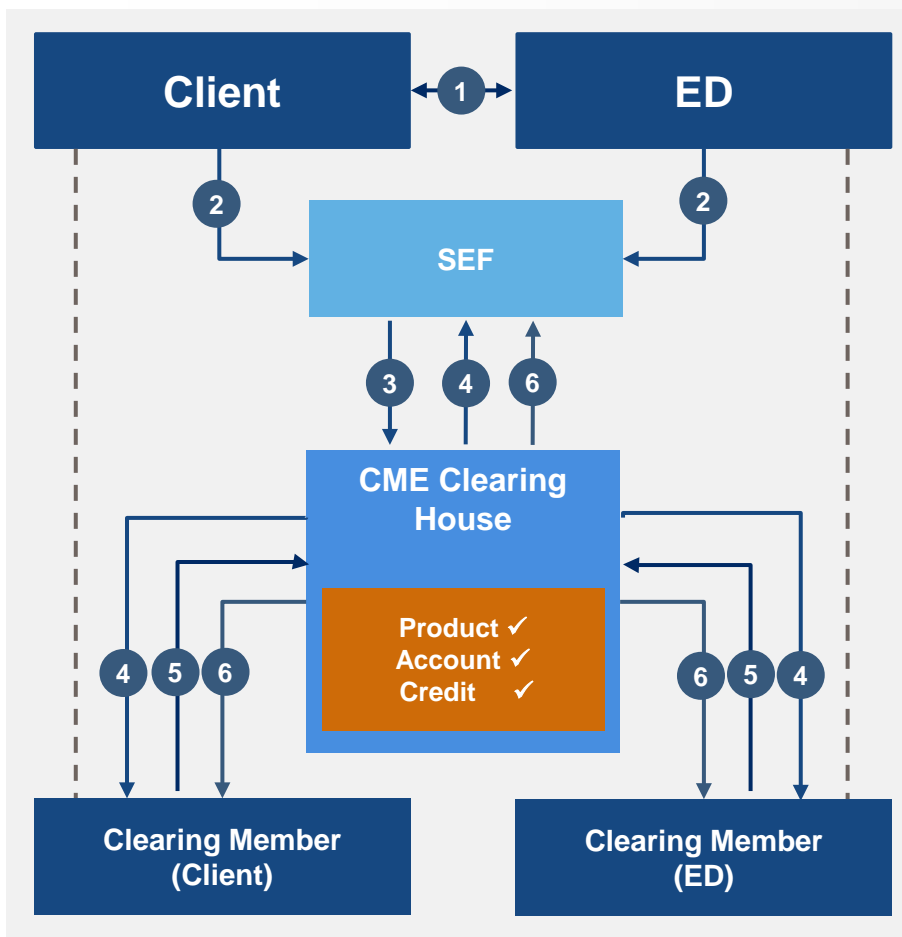
SEF Workflow with Pre-Approval



- 1 Trade receives credit pre-approval from FCM (precedes this workflow)
- 2 Client executes trade with Executing Dealer (ED) on SEF
- 3 SEF sends trade to CME for Clearing
- 4 After validating product, account and applying credit limits set by CME, CME accepts swap for clearing
- 5 CME sends "Cleared" notification to SEF which displays trade status to principals
- 5 CME sends a Clearing Confirmation to FCMs

*Please note a pre-approved trade does not go through request consent workflow.

SEF Workflow without Pre-Approval



- 1 Client and ED execute voice trade
- 2 Trade is entered manually into SEF
- 3 SEF sends trade to CME for Clearing
- 4 CME sends "Pending FCM Approval" notification to SEF
- 4 "Clearing Consent" notifications sent to FCM (client) and FCM (ED)
- 5 Clearing Member of both parties accept the swap
- 6 CME sends "Cleared" notification to SEF which displays trade status to principals
- 6 CME sends a Clearing Confirmation to FCMs

Advanced SEF Integration

CME Group's innovative technology enables the buy side to seamlessly transition to SEF execution

Solution	Description	Benefit
Credit Limit Utilization	<ul style="list-style-type: none"> CME will publish the credit limit utilization on all request consent and clearing confirmation messages to Clearing Firms. 	<ul style="list-style-type: none"> Provides greater transparency to clearing firms on the limits that CME sets, allowing those firms to better manage limits across their client accounts and lowering the chance of trades being rejected pre or post clearing.
Bunched Orders	<ul style="list-style-type: none"> CME will support clearing of bunched, or blocked, order in a "holding account" at their preferred FCM. You will then be able to allocate the cleared block across multiple end accounts 	<ul style="list-style-type: none"> For those that don't know the end client allocation prior to execution, or are unable to send the fully allocated order to the SEF via their OMS system will have the ability to post allocate the trade across their end accounts.
Order Grouping*	<ul style="list-style-type: none"> Will allow you to submit individual orders for clearing, across multiple RFQs or CLOBs, that were executed at different prices and then group these orders post clearing. CME will net these orders real-time, calculating the average price of the orders. A new single order at the average price will then be cleared in your end accounts. 	<ul style="list-style-type: none"> Allows the flexibility to allocate orders across SEFs while still ensuring "best execution" across your end client accounts. This solution can also be used on previously cleared trades for risk less compression of client portfolios.
Multiple Order Submission*	<ul style="list-style-type: none"> CME will support a "all or none" clearing model for multiple orders that you would like to bunch together into a single clearing message. These orders will be reviewed as a single message with the ability to accept or reject the entire bunched order. 	<ul style="list-style-type: none"> Allows the same functionality as the bunched order solution, without the FCM "holding account" requirement. You will have the ability to send orders across multiple RFQs or into a CLOB that results in multiple fills, which will also need to be allocated across multiple accounts. This solution will ensure the entire order is either accepted or rejected as a single bunched transaction.

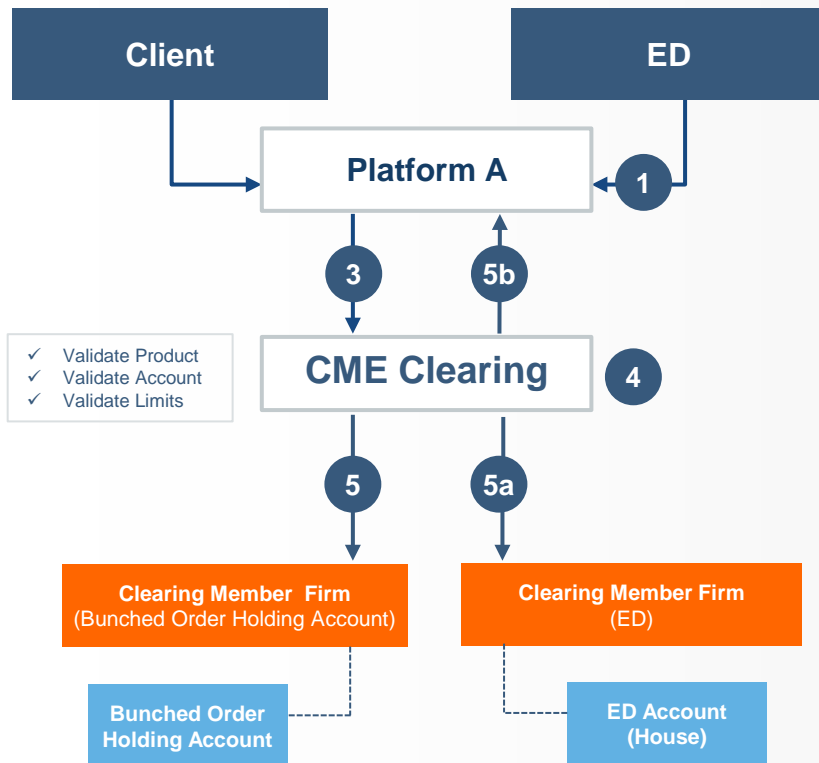
*Not yet available. Expected in Q2 2014.

Bunched Order Overview

Recent regulations require bunched orders to be sent for clearing immediately after execution

CME Group's Solution

- Support clearing of bunched orders in a "Holding Account"
- Allow submission of allocations to the end customer account while offsetting the bunched order in the holding account
- 4 allocation methods available:
 - Allocations entered on SEF
 - Allocations entered on Platforms
 - Clearing Firm performs allocations using Transfer workflow in DMS
 - Spreadsheet upload using Transfer workflow via CME Client Services Team



- 1 ED alleges the bunched order to the Client.
- 2 Client affirms the bunched order while selecting the "Holding Account" at CMF.
- 3 Platform A sends the matched deal to CME Clearing.
- 4 CME Clearing validates the bunched order.
- 5 CME sends *Cleared* notice to Clearing Member Firms.
- 5a CME sends *Cleared* notice to the Clearing Member Firm (ED).
- 5b CME sends *Cleared* notice back to the platform.

Onboarding

Platforms Connected to CME Clearing

Several market leading affirmation platforms and Swap Execution Facilities are directly connected to CME Clearing

Connectivity Partners

Bloomberg

ICE LINK

CME CLEARPORT

Javelin

MarketAxess

SWAPEX

markitSERV

TERA EXCHANGE

Sky Road

trueEX

Tradeweb

VYAPAR



OTC Clearing Members

Bank of America

BNP PARIBAS

BMO

BNY MELLON

BARCLAYS

CRÉDIT

Newedge

HSBC

CREDIT SUISSE

Scotiabank

Morgan Stanley

RBC

NOMURA

SOCIÉTÉ GÉNÉRALE

JPMorgan

Citi

STATE STREET

WELLS FARGO

UBS

RBS
The Royal Bank of Scotland

Goldman Sachs

Deutsche Bank

CME Group Onboarding for SEFs and Bunched Orders

SEF Account Setups

- **CDS ONLY:** Complete [CME API Onboarding form](#)
- Request accounts to be set up at a SEF through your FCM
- Your FCM will utilize the CME Platform file
 - File contains the Account Number, Alias, Entity Name, AM Name, and Short Code
- Your FCM will send the account setup request to the SEF, copying the CME Onboarding team, and will provide all of the relevant account details

Bunched Order Accounts

Three options to setting up a bunched order:

- Use an existing FCM account
- Use an existing Customer account
- Create a new customer account that is labeled – “Asset Manager on behalf its clients”
 - If setting up a new customer account, you will need to register the account with the OTC registration team and provide the LEI of the parent company. Once the holding account is registered, your FCM will need to create the production account per the normal onboarding process.

Resources

Next Steps: SEF Readiness Checklist

- Credit ONLY:** Complete [CME API onboarding form](#)
- Contact your Clearing Member to confirm timeline to access designated SEFs
- Complete required documentation for each SEF
- Speak with your FCM to receive confirmation that this link has been established with FCM, CME and the designated SEF
- Execute a cleared trade on all SEFs you will be utilizing
- Suggested other steps:
 - Utilize CME Group's Advanced SEF Solutions
 - Bunched Orders
 - Use an existing FCM account
 - Use an existing Customer account
 - Create a new customer account that is labeled – “Asset Manager on behalf its clients”
 - Order Grouping (Not yet available)*
 - Multiple Order Submission (Not yet available)*

Reporting: SDR Onboarding

- Register to receive a CFTC Interim Compliant Identifier
www.ciciutility.org
- Complete the CME SDR User Agreement
www.cmegroup.com/repositoryagreement
- Submit and Access Transactions
 - CME SDR User Interface
 - .CSV vs. API
 - Direct vs. Indirect Reporting

Reporting: ETR Onboarding

- Register for a Legal Entity Identifier from a Pre-Local Operating Unit (LOU)
 - www.leiroc.org/publications/gls/lou_20131003_2.pdf
- Complete the CME European Trade Repository User Agreement
 - Available on our website www.cmegroup.com/etr
 - LEI required for registration
 - Applications to be sent to ETRRegistration@cmegroup.com
- Use CME European Trade Repository Systems
 - Access to test environment available now
 - Repository Business Team Repository@cmegroup.com
 - Repository Support Team RepositorySupport@cmegroup.com

Delegated Reporting Service

To simplify the reporting process, we are now offering this service, at **no cost**, which:

- Automatically reports trades on your behalf to our CME ETR (including historical back-loading)
- Requires no additional work or testing and is easy to set-up

Register Today: www.cmegroup.com/delegatedreporting

Contact Information

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