

Introduction to Sustainable Clearing from CME Group

Companies are increasing their sustainable hedging activity, defined as both the trading of exchange-traded derivatives such as carbon offsets, battery metals, and bioenergy, as well as hedging activity with interest rate and foreign exchange futures to support sustainable business objectives.

Sustainable Clearing from CME Group is a mechanism that allows CME Group clearing members and their clients to measure and report on hedging activity in support of ESG initiatives.

Seamless solution that offers independent oversight and credible reporting

Sustainable Clearing bridges the gap between growing demand for sustainable hedging and reliable, transparent reporting of these activities – with minimal financial and operational impact.

SUSTAINABLE HEDGING	SUSTAINABLE CLEARING FROM CME GROUP	ESG REPORTING AND EVALUATION
Firms increasingly have a mandate from leadership to prioritize "sustainable hedging."	CME Group launches and promotes Sustainable Clearing – a new solution to measure and report on cleared positions in support of sustainable business goals.	Stakeholders and authorities want to see how derivatives are supporting ESG focused businesses.
Some firms have specific lines of credit in support of "sustainable hedging."	Easily highlight sustainable activities with a simple tagging system and point to external validation with minimized operational footprint.	Firms require an efficient, economic solution to avoid downtime and work within capital constraints.

How are trades defined and allocated to Sustainable Clearing?

All participating futures commission merchants will be provided with Sustainable Clearing eligibility criteria to identify and tag sustainable trades. The eligibility criteria will be aligned to external standards, such as the International Capital Markets Association (ICMA) Social & Green Bond Principles. CME Group will be 'criteria neutral' to ensure that only independent third-party standards are applied:

1. Internal classifications are identified and assigned.

The clearing member firm identifies which of the sustainable finance categories each eligible trade applies to, based on their internal classification framework.

Then, each trade will get assigned to a category in the internal workflow, in a form that can be shared with CME Clearing operations.

2. Map to a recognized external standard.

The clearing member firm will then provide a published mapping from their internal classification framework to one of the external standards recognized by CME Group's Sustainable Clearing team. These include:

SUSTAINABLE FINANCE – *RECOGNIZED EXTERNAL STANDARDS	
GREEN (ENVIRONMENTAL)	SOCIAL
EU Taxonomy for Sustainable Activities	
ICMA Green Bond Principles	ICMA Social Bond Principles
Loan Market Association Green Loan Principles	Loan Market Association Social Loan Principles
ASEAN Capital Markets Forum Green Bond Standards	ASEAN Capital Markets Forum Social Bond Standards
Climate Bonds Taxonomy	

** We recognize that the relevance and adoption of external standards continues to evolve. As a result, the CME Group Sustainable Clearing Governance Committee will continue to monitor industry and regulatory developments and may add or modify components of this list as determined by consensus.*

3. CME Clearing reviews and separates verified and unverified sustainable hedging activity.

CME Clearing reviews tagged transactions and returns a report to the clearing member firm and their clients validating which transactions meet the established criteria, sending two files via SFTP confirming verified activity in one report and unverified activity in the second report.

The criteria and governance of Sustainable Clearing will be administered by CME Benchmark Administration Limited, an independent legal entity within CME Group, that manages and operates the company's benchmarks and indices. A robust governance framework and an inclusive criteria committee based on ICMA principles will ensure that Sustainable Clearing operates with integrity and transparency, staying close to relevant standards in the industry as they evolve and mature

WORKING EXAMPLES OF SUSTAINABLE CLEARING

Types of eligible derivatives transactions



SOLAR POWER

A Spanish solar power firm buys polysilicon from China in US dollars and wants to hedge its FX exposure as it sells its electricity in euros.



ELECTRIC POWER

An oil company plans to acquire an electric charging company but wants to lock in the repayment rate on its floating borrowings.



WIND POWER

A US wind power developer approaches a US bank to hedge its interest rate exposure as it takes out loans to fund further development.



ETHANOL

A Brazilian ethanol producer wants to lock in the spread between its fixed costs in Brazilian real and its US dollar revenue from international exports.



STEEL

A French property developer wants to build a major new social housing development and wants to use derivatives to hedge against any fluctuations in interest rates and in the price of the steel it will use for construction.

For more information, contact ccs@cmegroup.com, or visit cmegroup.com/sustainable-clearing.

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Helping the World Advance: CME Group is comprised of four designated contract markets ("DCMs"), the Chicago Mercantile Exchange Inc. ("CME"), the Board of Trade of the City of Chicago, Inc. ("CBOT"), the New York Mercantile Exchange, Inc. ("NYMEX"), and the Commodity Exchange, Inc. ("COMEX"). The Clearing Division of CME is a derivatives clearing organization ("DCO") for CME Group's DCMs.

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In Australia, CME has a Clearing and Settlement Facility License.

In Canada, CME is exempt from the requirement to be recognized as a clearing agency in Alberta, Ontario, and Quebec.

In Hong Kong, CME is authorised to provide Automated Trading Services to Hong Kong investors via its GLOBEX system, and its CME Clearing System under Part III of the Securities and Futures Ordinance. In Japan, CME has a Foreign Financial Instrument Clearing Organisation license under the Financial Instruments and Exchange Act of Japan.

In Mexico, CME is a recognized foreign CCP.

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