

OTC FX Clearing

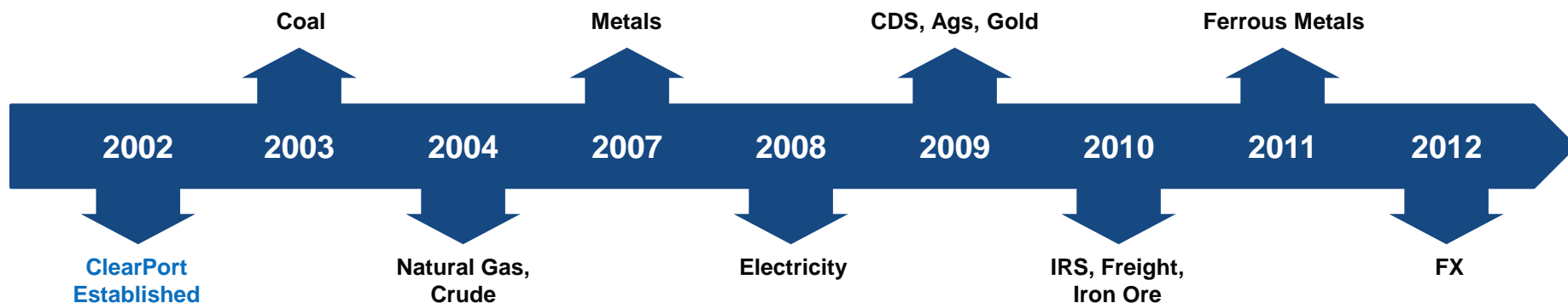
Security. Neutrality. Transparency

November 2013

CME Group OTC Clearing

CME Group is the industry leader in OTC Clearing, delivering a broad offering spanning Interest Rates, Credit, FX, Energy, Metals, and Ags

OTC Product Progression



CME Group

- Founded in 1898 as CME (Chicago Mercantile Exchange)
- #1 derivatives exchange in the U.S. and globally by volume
- Global leader in exchange-traded markets with \$3B in revenue
- Leading liquidity / volumes in global benchmarks across all asset classes
- Extensive and diverse distribution network and customer base
- International linkages with leading global exchanges

CME ClearPort

- Launched in 2002 to provide risk mitigation in energy markets following the Enron collapse
- Market leading OTC Clearing venue for a diverse range of commodities asset classes
- 1,700 listed contracts
- 10,000 registered users around the world
- 500,000 contracts cleared daily



Multi-Asset Class Solution via One Clearinghouse

Delivering Capital Efficiencies in a Capital Constrained World

- CME has worked closely with buy-side and sell-side participants to build a multi-asset class, market leading OTC Clearing Solution
- Builds on the strength of CME Group's market leading Interest Rate and FX futures and options products
- In June, over 200 firms cleared trades at CME, comprising a wide array of market participants including asset managers, hedge funds, insurance companies, GSE's, and proprietary trading firms

Portfolio Margining

- Allows margin offsets of OTC IRS against Treasury and Eurodollar Futures, with savings up to 90%
- Launched portfolio margining for house accounts in May and extended this service to customers in November
- Since the launch of this offering, market participants have seen significant risk reductions that account for margin savings of over \$1 billion
- CME CORE now offers a margin optimization feature allowing firms to run a portfolio margin savings analysis of IRS and Eurodollar and Treasury Futures

Deliverable Swap Futures

- Deliverable Swap Futures total volume is over \$56.7 billion in notional, with open interest at \$5.0 billion in notional since December 2012 launch
- Offers capital efficiencies through futures-style margining and netting by providing margin offsets against Eurodollar and Treasury Futures
- All Open Positions are delivered into OTC Cleared IRS Swaps at expiration
- Clients have taken advantage of the flexible execution through Globex, block trades, and open outcry

Multi-Asset Class

- Broadest OTC product scope available to customers with 12 IRS currencies, 56 CDX indices, and 12 FX NDFs
- Operational efficiencies of a multi-asset class solution for IRS, CDS, and FX all in one clearinghouse
- Simplicity of working with one clearinghouse instead of several as firms work to build out their infrastructure to prepare for OTC Clearing
- Over \$4.7 trillion of notional has cleared and open interest is over \$3.0 trillion

Real-Time Clearing

- Superior technology enables real-time clearing with straight-through processing and real-time confirmation is sent once the trade is cleared
- Customers don't have to wait 15 minutes to find out if a trade has been accepted or rejected
- Negotiate, execute and submit trades through 11 affirmation platforms and SEFs
- Time lags in the clearing cycle introduces potential credit risk, and with a faster clearing cycle this risk is reduced and leads to more efficient risk management

CME Group OTC FX Clearing

Overview

- CME Group has worked closely with buy side and sell side participants to build a multi-asset class, market leading OTC clearing solution
- OTC FX solution provides a post-execution clearing and settlement service designed to meet the risk-mitigation needs of market participants
- Allows customers to retain the flexibility of OTC products, utilize any established OTC execution method, while addressing counterparty credit risk

Product Scope

- Product coverage initially focused on NDFs (Non-deliverable Forwards) and CSFs (Cash-Settled Forwards) but plan to offer a full OTC FX product suite including: FX options, spot, swaps, forwards
- Notional can be any bankable amount, with any valid business date out to 2 years
- Initial product scope includes 12 NDFs and 26 CSFs

Benefits

Expand Liquidity

- Increase volume with existing accounts by freeing up credit lines
- Dealer access to new counterparties previously unattainable for legal or credit reasons

Mitigate Counterparty Risk

- CME acts as the central counterparty to all transactions

Reduce operational risks

- **Sequestered customer account treatment** (*cleared OTC Derivatives Account class*) - Provides the benefits of bankruptcy protection and portability of customer funds under the full financial safeguards package of the CME Clearing House
- **Portfolio Margining** - Provides valuable risk mitigation for portfolios of longer-dated risk products
- **Balance Sheet Efficiencies** - Exchange-style multilateral offsets of positions dramatically reduce the need to allocate balance sheet to cover bi-lateral counterparty limits

FX Clearing Overview

Trade Submission

- Platform-agnostic open clearing service delivered through CME ClearPort
- Compatible with Straight Through Processing (STP) providers allowing for real-time trade submission or migration of existing portfolios (Traiana, Bloomberg-VCON, MarkitServ, RTNS, etc.)

Valuation & Settlement

- Cleared as OTC Forwards (not futures) with the trades held at the original trade price
- Daily mark-to-market (MTM) generates unrealized P&L, with 2-way flow of cash variation margin
- Positions held on a gross basis, with netting optional
- NDF's will settle to the EMTA recommended official Fix in each pair, while the CSFs will use the WMR 4pm London Fix
- Working to solve the CLS settlement issue to provide clearing of deliverable FX

Risk Management

- Initial margins calculated utilizing historical VaR, using a 99%, 5-day loss coverage assumption
- Collateral held in the Customer OTC Sequestered account class
- Similar to FX futures offering from Guaranty Fund standpoint

Cleared OTC FX Product Scope

12 OTC FX Non-Deliverable Forwards

*All settlements in USD



Brazilian Real



Philippine Peso



Malaysian Ringgit



Indian Rupee



Korean Won



Chinese Renminbi Yuan



Indonesian Rupiah



Taiwan Dollar



Chilean Peso



Colombian Peso



Peruvian Sol



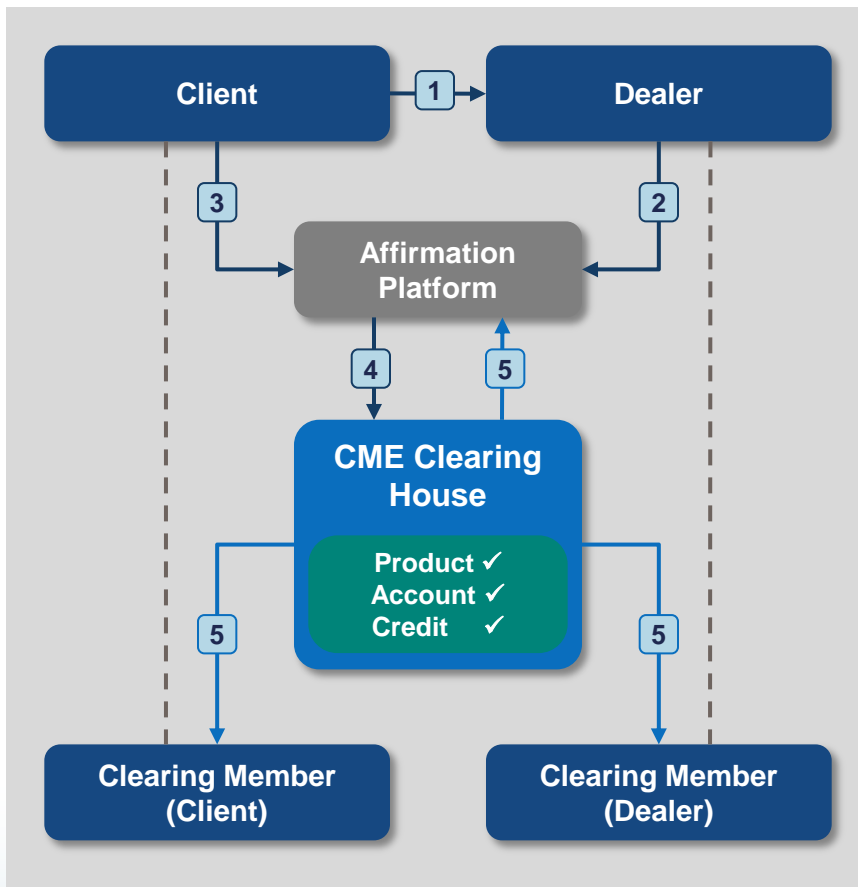
Russian Ruble

26 OTC FX Cash-Settled Forwards

- **USD Settlement:** EUR/USD, AUD/USD, GBP/USD, USD/CHF, USD/SEK, USD/DKK, NZD/USD, USD/NOK, USD/HKD, USD/HUF, USD/ILS, USD/MXN, USD/SGD, USD/PLN, USD/ZAR, USD/CZK, USD/TRY, USD/THB
- **Non USD, T+1 settlement currencies:** USD/CAD, EUR/GBP, EUR/AUD, EUR/CHF
- **Non USD, T+2 settlement currencies:** USD/JPY, AUD/JPY, EUR/JPY, CAD/JPY

Trade Workflow Mechanics

Straight Through Processing allows for real-time clearing and trade confirmations



1 – Dealer and Client agree to trade

2 – Dealer alleges swap to Client through the Affirmation Platform

3 – Client selects Clearing Member and verifies the swap through the Affirmation Platform

4 – Affirmation Platform sends the matched trade between Dealer and Client to CME Clearing House

5 – CME checks for validation of the product, account and applies credit limits set by Clearing member(s), and then accepts the swap for clearing

5 – CME sends “Cleared” notification back to the Affirmation Platform which displays the “Cleared” Status to each party

5 – CME sends a Clearing Confirmation to Clearing Member(s) once all is validated

Additional Information on OTC FX

Do you have additional questions or need more information?

Please contact a member of the FX team or visit www.cmegroup.com/fxclearing

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