CDS Enhancements
Credit Event Processing

March 2012
Credit Event Processing

Post Event Contract

- Eliminate the use of a zero coupon contract on a defaulted name following a credit event
- Provide greater certainty as to the fungibility of pre-default and post-default trades on the same reference entity
  - Trading in original contract post event continues
  - All new trades in defaulted name have the same accrual days, Last Coupon Date to EDD

Availability of New Index Version

- On CME Final Processing Day, the new version of the index is available for clearing
  - Limitations in EOD settlement price process do not allow for the new index version to be listed concurrently with the old version of the index
  - Client feedback on need to list multiple versions for clearing during the credit event processing will further determine the prioritization of this change

EOD Settlement Price Contributions

- Expectation for indices: If the defaulted entity is a constituent of an index, in order to list the newly reversioned index and make it eligible for clearing, firms required to submit pricing on the old version must also submit pricing for the new version.
- Expectation for single names: Leading up to and including the day before the settlement auction on the defaulted entity, firms must continue to submit an upfront price (or percent of par) for the defaulted entity. On the final settlement auction date, no submission for this entity will be required; the settlement price for this date and the two remaining days until final processing date will be the price that has been generated at final settlement auction. Defaulted entities will not be eligible for matched trade selection.
Credit Event Processing: Example 1

In Between Coupon Payment Dates

- **Tuesday Feb 16**
  - **Accrued Period Days** is 58
  - **EOD OP = +10M**
  - **Rebate of 1 day accrual is banked**
  - **EOD OP = +8M**

- **Wednesday Feb 17**
  - **59 days accrual**
  - **No new trades**
  - **EOD OP = +10M**

- **Thursday Feb 18**
  - **58 days accrual**
  - **New trade cleared for -8M**
  - **In the new trade, the accrual period is 58 days**
  - **EOD OP = +2M**

- **Friday Feb 19**
  - **58 days accrual**
  - **No new trades**
  - **EOD OP = +10M**

- **Monday Feb 22**
  - **58 days accrual**
  - **New trade cleared for +3M**
  - **In the new trade, the accrual period is 58 days**
  - **EOD OP = +5M**

- **Tuesday Feb 23**
  - **58 days accrual**
  - **No new trades**
  - **EOD OP = +10M**

- **Wednesday Feb 24**
  - **58 days accrual**
  - **No new trades**
  - **EOD OP = +10M**

- **Thursday Feb 25**
  - **58 days accrual**
  - **No new trades**
  - **EOD OP = +10M**

- **Friday Feb 26**
  - **58 days accrual**
  - **No new trades**
  - **EOD OP = +10M**

- **Monday March 1**
  - **58 days accrual**
  - **No new trades**
  - **EOD OP = +10M**

- **Tuesday Feb 16**
  - **Accrued Period Days** is 58
  - **EOD OP = +10M**
  - **Rebate of 1 day accrual is banked**
  - **EOD OP = +8M**

- **Wednesday Feb 17**
  - **59 days accrual**
  - **No new trades**
  - **EOD OP = +10M**

- **Thursday Feb 18**
  - **58 days accrual**
  - **New trade cleared for -8M**
  - **In the new trade, the accrual period is 58 days**
  - **EOD OP = +2M**

- **Friday Feb 19**
  - **58 days accrual**
  - **No new trades**
  - **EOD OP = +10M**

- **Monday Feb 22**
  - **58 days accrual**
  - **New trade cleared for +3M**
  - **In the new trade, the accrual period is 58 days**
  - **EOD OP = +5M**

- **Tuesday Feb 23**
  - **58 days accrual**
  - **No new trades**
  - **EOD OP = +10M**

- **Wednesday Feb 24**
  - **58 days accrual**
  - **No new trades**
  - **EOD OP = +10M**

- **Thursday Feb 25**
  - **58 days accrual**
  - **No new trades**
  - **EOD OP = +10M**

- **Friday Feb 26**
  - **58 days accrual**
  - **No new trades**
  - **EOD OP = +10M**

- **Monday March 1**
  - **58 days accrual**
  - **No new trades**
  - **EOD OP = +10M**

- **Tuesday Feb 16**
  - **Accrued Period Days** is 58
  - **EOD OP = +10M**
  - **Rebate of 1 day accrual is banked**
  - **EOD OP = +8M**

- **Wednesday Feb 17**
  - **59 days accrual**
  - **No new trades**
  - **EOD OP = +10M**

- **Thursday Feb 18**
  - **58 days accrual**
  - **New trade cleared for -8M**
  - **In the new trade, the accrual period is 58 days**
  - **EOD OP = +2M**

- **Friday Feb 19**
  - **58 days accrual**
  - **No new trades**
  - **EOD OP = +10M**

- **Monday Feb 22**
  - **58 days accrual**
  - **New trade cleared for +3M**
  - **In the new trade, the accrual period is 58 days**
  - **EOD OP = +5M**

- **Tuesday Feb 23**
  - **58 days accrual**
  - **No new trades**
  - **EOD OP = +10M**

- **Wednesday Feb 24**
  - **58 days accrual**
  - **No new trades**
  - **EOD OP = +10M**

- **Thursday Feb 25**
  - **58 days accrual**
  - **No new trades**
  - **EOD OP = +10M**

- **Friday Feb 26**
  - **58 days accrual**
  - **No new trades**
  - **EOD OP = +10M**

- **Monday March 1**
  - **58 days accrual**
  - **No new trades**
  - **EOD OP = +10M**
Credit Event Processing: Example 2

### Straddling a Coupon Payment Date

- **Entity files for Bankruptcy on Mar 12th**
- **CME CE PROCESSING**
  - **Affected Index**
  - **Defaulted SN**
- **Business as Usual**
- **Business as Usual**
- **CE Initial Processing Day**
- **CE Daily Processing**
- **CE Daily Processing**
- **CE Daily Processing**
- **CE Daily Processing**
- **CE Daily Processing**
- **CE Final Price Determination Day**
- **CE Final Processing Day**
- **CE Final Settlement Day**

**Variables:**
- **DC**
- **EDD**
- **COB**
- **SN**
- **PRF**
- **NPO**

**Events:**
- DC determine a bankruptcy event has occurred and determines the EDD as Mar 13
- Markit publishes new version of affected index
- **Coupon Date**
- **Auction Final Price Determination Date**
- **Auction Successful**

**Timeline:**
- **Tuesday Mar 13**
- **Wednesday Mar 14**
- **Thursday Mar 15**
- **Friday Mar 16**
- **Monday Mar 19**
- **Tuesday Mar 20**
- **Wednesday Mar 21**
- **Thursday Mar 22**
- **Friday Mar 23**
- **Monday Mar 26**

**Initial Processing Day:**
- **Publish Advisory communicating DC determination, EDD and CME Initial Processing Date of Mar 15**
- **Set Accrual Period Days in PRF to 85**

**Daily Processing:**
- **Calculate rebate of 1 day of accrual on the defaulted SN**
- **Calculate rebate of old version (EDD to coupon date)**

**Settlement Day:**
- **Final compensation amount settled**
- **Final new version of the index clearable**
- **4 days accrual**
- **No new trades**
- **EOD OP = +49M**

**Other details:**
- **In the new trade, the accrual period is 86 days**
- **EOD OP = +12M**
- **New trade cleared for +2M**

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Credit Event Processing: Example 3

**Auction Date and Final Processing Date straddling Coupon Payment Date**

- **Tuesday Mar 13**
  - Received a request to convene the committee
  - Publicly available information satisfies the requirement of section 2.1b
  - DC determine a bankruptcy event has occurred and determines the EDD as Mar 13
  - Markit publishes new version of affected index
- **Wednesday Mar 14**
  - DC sets date of Auction as Mar 22
  - Auction Final Price Determination Date
  - Auction Successful
  - Final Price set at 68.125
  - Coupon Date

**Credit Event Processing: Example 3**

**Tuesday Mar 13**
- Accrued Period Days is 85
- EOD OP = +10M
- 86 days accrual
- New trade cleared for +2M
- In the new trade, the accrual period is 86 days
- EOD OP = +12M

**Wednesday Mar 14**
- Old version of the index clearable
- 86 days accrual
- No new trades
- EOD OP = +35M

**Thursday Mar 15**
- Old version of the index clearable
- 87 days accrual
- New version of the index is included in PRF, not tradable
- No new trades
- EOD OP = +35M

**Friday Mar 16**
- Only old version of the index clearable
- 88 days accrual
- New trade cleared for +14M
- EOD OP = +49M

**Monday Mar 19**
- Only old version of the index clearable
- 91 days accrual
- No new trades
- EOD OP = +49M
- Full coupon banked for Old index with Accrual of 90 days
- No new trades
- EOD OP = +49M

**Tuesday Mar 20**
- Only new version of the index clearable
- 0 days accrual
- EOD OP = 0

**Wednesday Mar 21**
- Only new version of the index clearable
- SOD OP in the old version = 0
- SOD OP in the new version = +49M
- New version of index with new NPO will continue accruing and is 3 days

**Thursday Mar 22**
- Only new version of the index clearable
- SOD OP in the new version = +49M

**Friday Mar 23**
- Only new version of the index clearable
- 1 days accrual
- No new trades
- EOD OP = +49M

**Business as Usual**
- Publish Advisory communicating DC determination, EDD and CME Initial Processing Date of Mar 15.

**Business as Usual**
- Accrued Period Days is 85
- EOD OP = +35M

**Business as Usual**
- Old version of the index clearable
- 86 days accrual
- No new trades
- EOD OP = +35M

**CE Initial Processing Day**
- Set Accrued Period Days in PRF to 85
- New trade cleared for +12M
- Rebate of 1 day accrual is banked
- 85 days accrual
- New trade cleared for -8M
- In the new trade, the accrual period is 85 days
- EOD OP = +4M

**CE Daily Processing**
- Only old version of the index clearable
- 0 days accrual
- EOD OP = 0

**CE Final Price Determination Day**
- Calculate rebate of 1 day of accrual on the defaulted SN
- Calculate the cash compensation for SN and old index
- Calculate rebate of old version (EDD to coupon date)

**CE Final Processing Day**
- Final compensation amount settled

**CE Final Settlement Day**
- Business as Usual

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