CME Clearing
The Best Risk Management Starts with Security

Loyola University Chicago
Symposium on Clearing and Settlement

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In An Uncertain World, We Provide Confidence

RISE ABOVE THE RISK

- Price transparency
- Anonymous matching
- Twice daily mark-to-market
- Zero debt system
- Objective valuations
- Clearing member oversight
- Segregation of customer funds
- $7B financial safeguards system
- Industry-leading market regulation

CME Group
A CME/Chicago Board of Trade/NYMEX Company
CME Clearing Strengths

Safety and security provided to customers through:

- Central Counterparty
- Transparency
- Financial Safeguards
What is Clearing?

- Activities that take place between the time a transaction is originated and the time it is settled
- Intended to ensure that trades are settled in accordance with market rules
  - Securities world: T + 3
  - Derivatives world: risk management for the life of a trade
    - Bilateral clearing (OTC market)
    - Central counterparty clearing (exchange-traded markets)
Advantages of Central Counterparty Model

Central Counterparty Model

Trader A Defaults on Trade

Trader B Buying from Trader A

Central Counterparty Contains Default

Trader B Customers Protected

Trader A Customers Protected

Bilateral Model

Trader A Defaults on Trade

Trader B Buying from Trader A

Trader A Customers Unprotected

Trader B Customers Unprotected

Customers protected from losses
Customers at risk for losses
Transparent Markets – Inside and Out

• Customers know where they stand at all times
• Positions are marked to transparent market prices
• CME Clearing’s unbiased valuation creates a level playing field
Financial Reach of Our Safeguards

- **Tier 1**: Resources of the Defaulting Firm(s)
  - Aggregate Performance Bond Deposits = $101 Billion
  - Market Value of Pledged Shares = $1.47 Billion

- **Tier 2**: Temporary Liquidity Facility = $600 Million

- **Tier 3**: CME Capital Contribution
  - Surplus Funds = $100 Million

- **Tier 4**: Risk Capital Contribution
  - Security Deposit = $1.92 Billion

- **Tier 5**: Contingent Risk Capital Assessment Powers
  - $5.3 Billion

**Total Financial Safeguards Package = $7 Billion**
A Solution Addressing Unique Challenges of CDS

CDS Market Challenges

Counterparty and systemic default risk

The Integrated CDS Platform

Central management of default risk to limit counterparty risk

Limited price transparency and liquidity

Real-time price and risk transparency, with state-of-the-art price discovery, reporting and controls

Mark-to-market pricing discrepancies

Central counterparty marking based on continuous trading data
Financial Safeguards System: Resources
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