
Centralised Clearing

The SCI European CDS and OTC Derivatives Clearing Seminar
London 28 March 2011

Contents

From Bilateral trading to multilateral clearing

Debate

Questions and Answers

From bilateral trading to multilateral clearing

European CDS as an illustration

Since 2008, the US, European and Japanese regulators have been focusing their attention, analysis and requirements on facilitating the interposition of CCPs into the OTC derivatives business stream.

Up to July 2009 the CDS segment was a pure OTC business segment. A great deal of effort has been invested in standardisation and industrialisation of the definition and management of the CDS segment by various infrastructure providers involved in the segment, and more especially through:

- ISDA definitions and master agreements;
- ISDA protocols;
- ISDA coordinating the opinions and actions for the dealers especially before the various regulators and political or legislative authorities;
- MarkitSERV who manage the Trade Information Warehouse (TIW) which is used extensively by bilateral counterparties as a matching platform and has become a kind of de facto register;
- Markit which has been recognised as the source of product referential and price data (for iTraxx indexes).

From bilateral trading to multilateral clearing

Key benefits of the interposition of a CCP

The fundamental benefits provided by a CCP:

- Post trade anonymity;
- A clear risk management process through a definitive choice of contractual counterparties;
- Settlement netting to reduce settlement and operational costs.

The primary benefit for Clearing Members is the provision of the CCP guarantee for cleared products. As such the performance of all transactions cleared will be guaranteed throughout their lifetime.

Other benefits of the service include:

- Proven expertise in default management;
- Reduction of counterparty risk;
- Use of a standardised risk management framework;
- Guarantee for upfront premium, coupon and credit event settlements;
- Opportunity to offset cleared transactions on demand on a daily basis.

In the OTC market different participants may have different approaches to risk management resulting in the need to manage multiple models. All trades cleared will be subject to a consistent risk management framework.

Contents

From bilateral trading to multilateral clearing

Debate

Questions and Answers

Contents

From bilateral trading to multilateral clearing

Debate

Questions and Answers