

CME Clearing The Best Risk Management Starts with Security

Loyola University Chicago
Symposium on Clearing and Settlement

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October 30, 2008

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 Clearing Strengths

Safety and security provided to customers through:

Central Counterparty

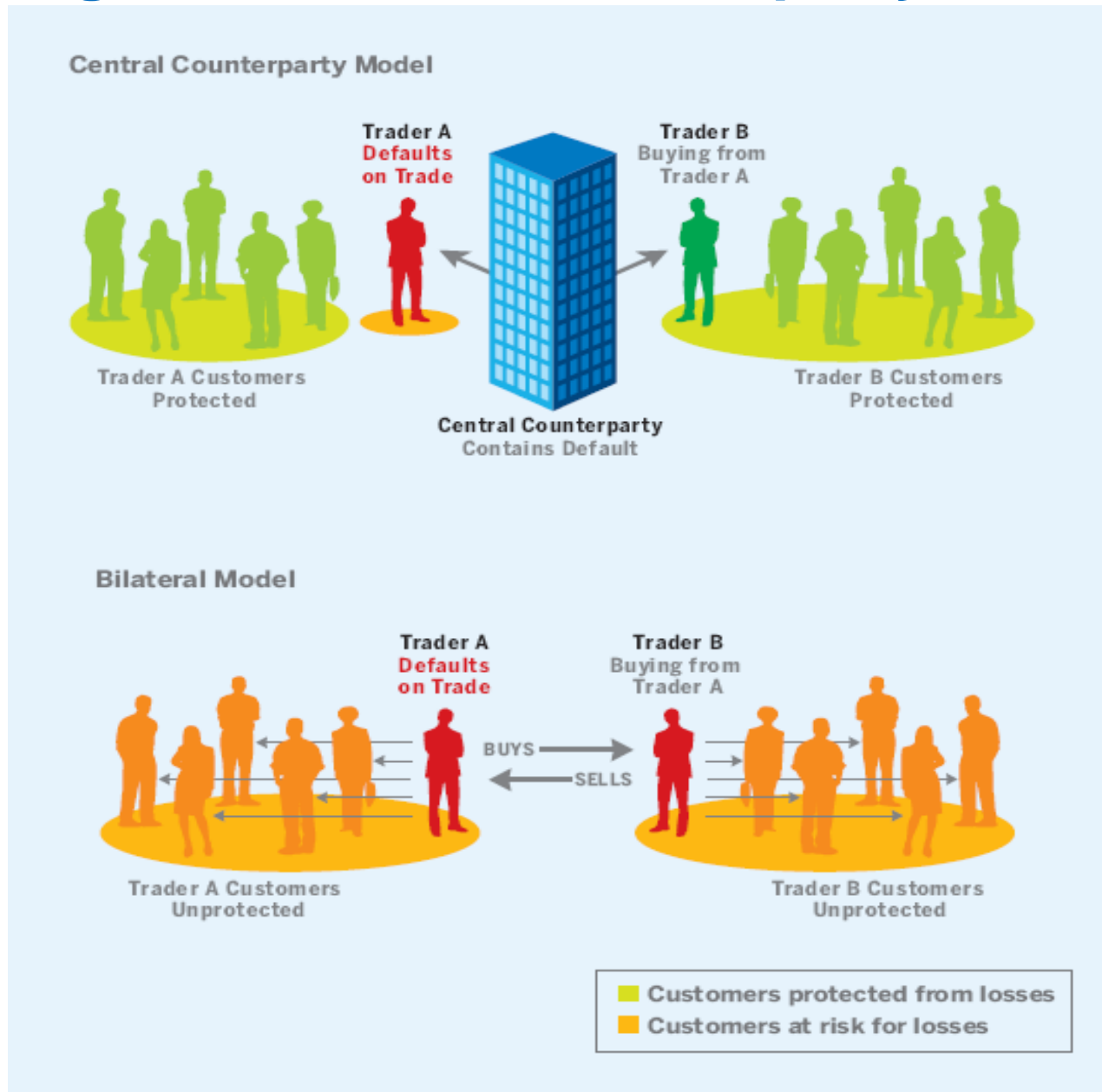
Transparency

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)

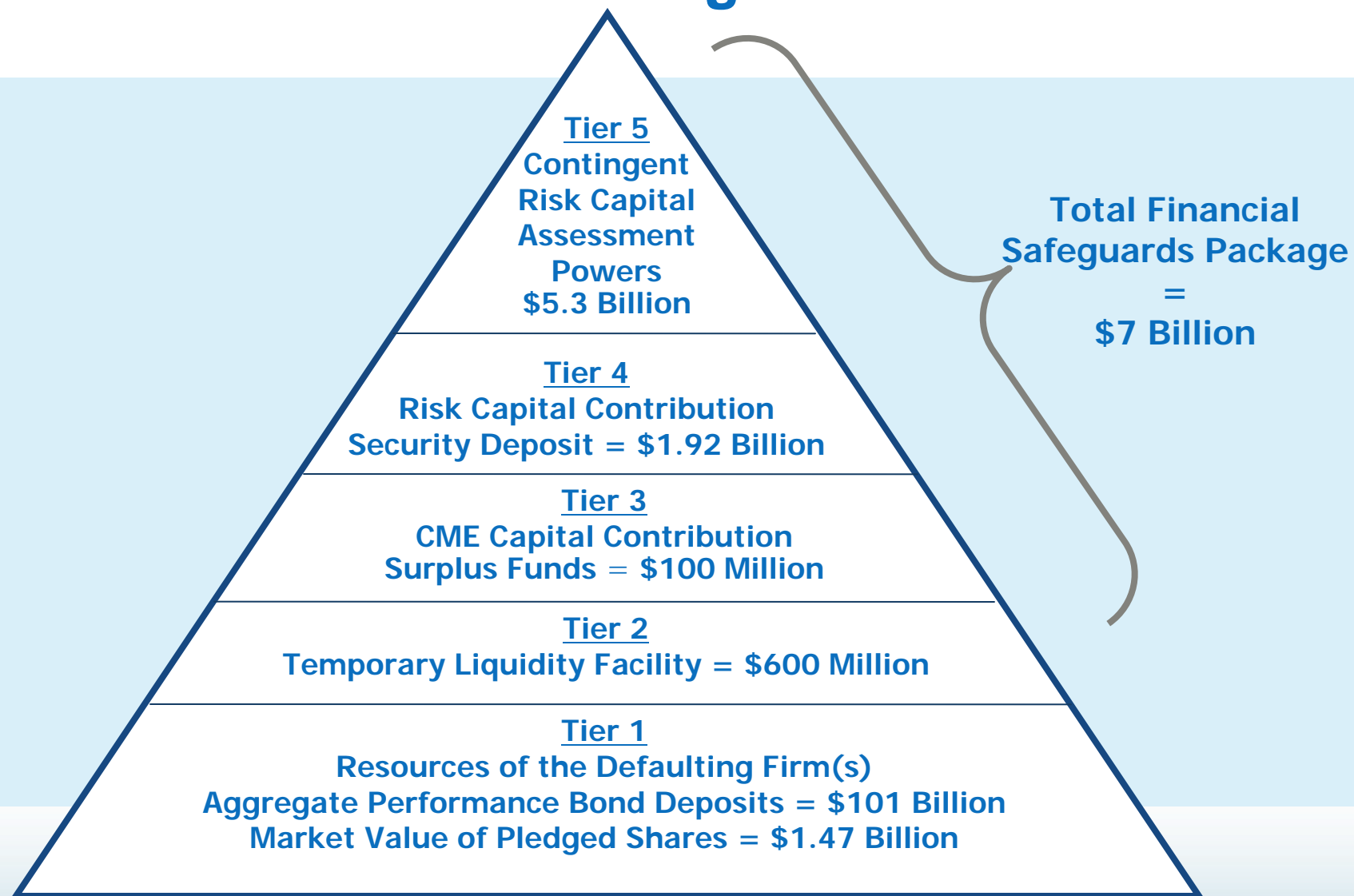
Advantages of Central Counterparty Model



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



A Solution Addressing Unique Challenges of CDS

CDS Market Challenges

Counterparty and systemic default risk

Limited price transparency and liquidity

Mark-to-market pricing discrepancies

The Integrated CDS Platform

Central management of default risk to limit counterparty risk

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


Central counterparty marking based on continuous trading data

Financial Safeguards System: Resources

Rise Above the Risk - Microsoft Internet Explorer provided by Chicago Mercantile Exchange Inc.

File Edit View Favorites Tools Help

Address http://www.cme.com/company/risk.html



A CME/Chicago Board of Trade/NYMEX Company


English | Worldwide

CME E-quotes | CBOT ADVANTAGE

All CME Group Exchange Web sites continue to be available: cme.com, cbot.com, and nymex.com

About CME Group » Rise Above the Risk

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Rise Above the Risk

Confidence In an Uncertain World

For more than a century, CME Group has provided competitive, transparent and safe markets. At a time of unprecedented uncertainty in financial markets, CME Group continues its 100+ year tradition of protecting customers and ensuring financial integrity. CME Clearing guarantees each transaction through a time-tested, \$7 billion financial safeguard system.

Below please find a selection of news articles, quotes by industry experts, and links to useful information that explains how CME Group can help you Rise Above the Risk.

New Clearing Overview - The Best Risk Management Starts With Security
[Financial Safeguards Quick Reference Guide](#)
[Financial Safeguards brochure](#)
[Print Ad, Rise Above the Risk](#)

Webinars and Broadcasts:
 Webinar: The Best Risk Management Starts With Security hosted by CME Clearing President Kim Taylor
 CME Group Executive Chairman, Terry Duffy, discusses the credit default swap market on FOX Business News
 Craig Donohue comments on Credit Derivatives - Bloomberg Television

Related Articles, Testimony, and Documents:
[Calls for derivatives clearing intensify](#), Jeremy Grant, Gillian Tett and Aline Van Duyn, October 15 2008, *Financial Times*
[Traders rush OTC deals on to commodities exchanges](#), Javier Blas and Jeremy Grant, October 13 2008, *Financial Times*

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CME Group Market Volume

Trade Date	10/23/08	10/22/08
Est. Electronic	10,805,586	9,470,465
Est. Open Outcry	2,104,102	2,018,699
Est. Clearport Clearing	534,273	410,847
Est. Totals	13,443,961	11,900,011

Delayed at least 10 minutes

Upcoming Events

- [CME Group Events](#)
- [Holiday Calendar](#)
- [Economic Release Calendar](#)

Quick Links

- [Clearing & Trading Fees](#)
- [Product & Vendor Codes](#)
- [Daily Bulletin](#)
- [CME Rulebook](#)
- [CBOT Rulebook](#)



A CME/Chicago Board of Trade/NYMEX Company

CME CLEARING

The Best Risk Management Starts with Security

In today's market environment, effective risk management is a business imperative. At CME Group, we believe our **financial safeguards system**, designed for the benefit and protection of both clearing members and their customers, is second to none.

Our centralized clearing capability and comprehensive set of risk management services provide the security, transparency and confidence our market participants need to operate, invest and grow.

- **Central counterparty to guarantee.** Credit risk is virtually eliminated as CME Clearing becomes the Super to every seller and the Super to every Buyer. We guarantee the financial soundness of all trades completed on our exchanges, processing more than 2 billion trades a year, as illustrated below.
- **\$8 billion in safety and soundness.** In more than 100 years of trading, we have never had a default or a loss of customer funds resulting from failure of a clearing firm. We also offer you the assurance of \$6 billion ready to help you contain systemic risk, including \$600 million from a secured liquidity facility.
- **Segregation of customer funds.** Regulations require clearing firms to separately account for and segregate to customers' positions and monies from their own requirements that extend to CME Clearing. Your funds are not subject to creditor claims against your clearing firm should it become financially unstable or insolvent, and can be transferred to another clearing firm if needed.

Additionally, CME Group's Audit department routinely inspects the books and records of clearing members to ensure compliance with these regulations.

NEW CLEARING MEMBERS RECEIVE SUPER

NEW CME CLEARING MEMBERS RECEIVE THE SUPER TO EVERY BUYER AND THE SUPER TO EVERY SELLER. WE GUARANTEE THE FINANCIAL SOUNDNESS OF ALL TRADES COMPLETED ON OUR EXCHANGES, PROCESSING MORE THAN 2 BILLION TRADES A YEAR, AS ILLUSTRATED BELOW.

ALL TRADES FINANCIAL SOUNDNESS

ALL TRADES FINANCIAL SOUNDNESS. IN MORE THAN 100 YEARS OF TRADING, WE HAVE NEVER HAD A DEFAULT OR A LOSS OF CUSTOMER FUNDS RESULTING FROM FAILURE OF A CLEARING FIRM. WE ALSO OFFER YOU THE ASSURANCE OF \$6 BILLION READY TO HELP YOU CONTAIN SYSTEMIC RISK, INCLUDING \$600 MILLION FROM A SECURED LIQUIDITY FACILITY.

SEGREGATION OF CUSTOMER FUNDS

REGULATIONS REQUIRE CLEARING FIRMS TO SEPARATELY ACCOUNT FOR AND SEGREGATE TO CUSTOMERS' POSITIONS AND MONIES FROM THEIR OWN REQUIREMENTS THAT EXTEND TO CME CLEARING. YOUR FUNDS ARE NOT SUBJECT TO CREDITOR CLAIMS AGAINST YOUR CLEARING FIRM SHOULD IT BECOME FINANCIALLY UNSTABLE OR INSOLVENT, AND CAN BE TRANSFERRED TO ANOTHER CLEARING FIRM IF NEEDED.



CLEARING

Financial Safeguards



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