

Liffe Credit Default Swaps on Bclear: an overview

Liffe's Credit Default Swaps (CDS) will provide an efficient and cost-effective means of processing and clearing OTC CDS business within the secure framework of an exchange and clearing house, using our proven OTC service, Bclear.

With Bclear, you can enjoy the benefits of doing business via an exchange – from clearing, processing and margining facilities to position netting - together with the aspects enjoyed in the OTC market, such as the ability to pre-negotiate business.

Liffe CDS contracts will be based on Markit iTraxx Europe Indices, the benchmark for European credit protection.

Bringing more to market

Liffe CDS contracts will introduce a number of key benefits to the \$62 trillion CDS marketplace, whilst maintaining those enjoyed in today's OTC market:

More convenient

- Trading activity follows the current OTC market convention of bilateral pre-negotiation, before being easily and securely processed
- Trade processing, including automatic coupon payments, occurs via Bclear, Liffe's well established service for registering OTC derivative trades

More secure

- Liffe's back office technology makes T+0 confirmations the standard and greatly simplifies position management, close outs and assignments, reducing operational risk
- LCH.Clearnet Ltd acts as a central counterparty for CDS, managing counterparty credit risk

More efficient

- Trades in the same contract with different counterparties can be netted down into a single position and margined, allowing for more efficient capital allocation
- With a competitive fee structure, fee caps on all products, and no minimum activity charge, Liffe CDS provides excellent value for money

More customers

- By providing the benefits of an exchange environment, with some significant barriers to entry removed (for instance, bilateral legal agreements are not required), Liffe is making CDS products available to a wider range of customers.

Supporting market conventions

Liffe CDS complements the existing conventions of the OTC market by:

- allowing trades to be pre-negotiated on a bilateral basis, without displaying buy and sell orders
- allowing trade submission to take place anonymously, ensuring that no prices are published to the rest of the market
- supporting the cash flow conventions of the current index CDS market by featuring two distinct cash flows:
 - >a one-off 'up-front' Initial Premium payment, expressed as a cash amount and paid on the day following the trade
 - >regular quarterly Fixed Premium coupon payments, expressed in basis point per annum of surviving notional principal (SNP)
- using market standard credit event definitions and credit event cash settlement.

Processed using Bclear

Bclear is Liffe's wholesale service for processing OTC derivative trades. CDS trades are pre-negotiated on a bilateral basis and submitted to Bclear, before being processed and cleared.

Since it was launched, Bclear has been used extensively by leading investment banks and buy-side firms to register OTC derivative business.

Bclear offers the ideal solution for CDS business:

- Provides a service where pre-negotiated and agreed business can be booked without displaying buy and sell orders
- Once booked, trades are registered and passed to LCH.Clearnet Ltd who acts as the central counterparty

- Registration and clearing of CDS contracts takes place anonymously, ensuring that no prices are published to the market
- CDS trades can be processed via Bclear using either our secure web based front end, or by connecting to Liffe via an API.

Submit CDS Trade - Microsoft Internet Explorer provided by Euronext IE Web Start Page ADM

Liffe
NYSE Euronext

Bclear Credit Derivatives Trade Submission

Search: ITrxxx Eu

Product: ITrxxx Europe Series 9 **INFO >**

SNP: 100.00%

Custom Trade: No

Strategy: Outright

Product Code	Buy/Sell	Volume	Year	Month	End Date	Initial Premium	Fixed Premium	Deal Price
C13	Buy	200	2018	Jun	2008/18	-890	165	

ITrxxx Europe Series 9 [EUR/INDEX_POINT] Seller to Buyer

OK **Reset** **Cancel**

Allocation Features

Buyer Account Code: -

Seller Account Code: -

Buyer Allocatee: -

Seller Allocatee: -

Buyer Account Reference:

Seller Account Reference:

Buyer Order ID: >>>

Seller Order ID:

Buyer Position: OPEN

Seller Position: OPEN

Annotations:

- Liffe CDS on Markit iTraxx Europe Index contracts
- No credit events have occurred for this index
- Easy give-ups, allocations and trade management
- Credit trading for up to 10 years is available
- Cash 'up-front' payment agreed by pre-negotiation
- Standard coupon payment
- Trades submitted for registration and cleared by LCH.Clearnet Ltd.

A secure and centrally cleared product

Once CDS trades have been processed by Bclear, they are then passed to LCH.Clearnet Ltd which acts as central counterparty for all of Liffe's London market derivatives business.

This is one of the main advantages of the Bclear approach.

For a Liffe CDS trade:



LCH.Clearnet Ltd becomes the central counterparty to both the buying and the selling clearing member:



As well as managing counterparty credit risk, Liffe CDS offers considerable advantages for risk and back office managers, including position netting and more effective position management.

Margining

An initial margin deposit is required by LCH.Clearnet Ltd in order to provide a central clearing and margining service.

In addition:

- positions are marked-to-market daily, with the daily profit/loss credited/debited in full
- positions are margined on a portfolio basis so that the level of margin required is assessed on the basis of the overall portfolio held and not individual positions.

Flexible trading

With Liffe CDS, offsetting transactions can result in positions being closed out. No ongoing margin deposit is required, and any initial/variation margin deposited on the original position is returned.

Furthermore, positions can be closed out regardless of the identities of the counterparties to the original transactions.

Liffe's Trade Registration System

Liffe CDS contracts are cleared and managed using Liffe's Trade Registration System/Clearing Processing System (TRS/CPS), the technology used for all Bclear and Liffe's London markets' LIFFE CONNECT® business.

TRS/CPS is easily connected to custom built or third party back office systems to ensure fully integrated position and risk management.

iTraxx Europe Index contracts

Liffe CDS contracts will be based on Markit iTraxx Europe indices, the benchmark for European credit protection. The rules-based Markit iTraxx Europe indices are comprised of the most liquid names in the European markets. The selection methodology ensures that the indices are replicable and represent the most liquid, traded part of the market.

Markit iTraxx Europe indices are easy and efficient to trade - investors can express their bullish or bearish sentiments on credit as an asset class and portfolio managers can manage their credit exposures actively.

Credit event settlement

Liffe CDS contracts will be settled using market standard credit event definitions and credit event cash settlement.

Credit Default Swap Index Contracts – initial summary contract design

Indices	iTraxx Europe Index iTraxx Europe Crossover Index iTraxx Europe Hi-Vol Index
Unit of Trading	Credit event protection on \leftrightarrow 100,000 notional principal
Contract Maturity	3¼ year, 5¼ year, 7¼ year and 10¼ year maturities listed on each index series with June or December maturity as appropriate
Protection Period	Each contract offers protection on credit events occurring in index constituents from the initial listing date to the maturity date
Protection Coverage	Contract offers protection on market standard credit events (bankruptcy, failure to pay and restructuring) for the underlying reference entity
Initial Premium	<ul style="list-style-type: none"> • Upfront amount paid by the buyer to the seller, or by the seller to the buyer reflecting any difference between the fixed premium and the deal price • Valued in \leftrightarrow per lot • \leftrightarrow0.01 minimum price increment • Paid in full on the business day following trade
Fixed Premium	<ul style="list-style-type: none"> • Amount paid by the buyer to the seller over the life of the contract, expressed in basis points ('Coupon') per annum of notional • A predefined single fixed premium rate will be established for each contract maturity • Fixed Premium amounts are calculated in Euro and paid in arrears on a quarterly basis (March, June, September and December) on the 20th of the month, or the following business day if the 20th is not a business day
Deal Price	<ul style="list-style-type: none"> • Quoted in basis points per annum of Surviving Notional Principal (SNP), representing the par market rate • 0.01 bp minimum price increment
Trading Hours	08:00 – 18:00 hours London time
Daily Valuation	<ul style="list-style-type: none"> • Value established at 16:00 hours London time for margin purposes • Valuations quoted in \leftrightarrow per lot • Value represents net present value of each position - can be positive or negative
Last Trading Day	20th calendar day of contract maturity month, or following business day if that day is not a business day
Final Valuation (EDSP)	\leftrightarrow 0.00 (zero)
Credit Event Delivery	<ul style="list-style-type: none"> • Delivery of 'Event Protection Contracts' at value of \leftrightarrow0.00 to holders of positions in affected delivery months. • EPC contracts are delivered in sufficient number to maintain the notional value of the combined CDS and EPC position and cash settled against final reference price determined in accordance with market practice. • Payment of fixed premium continues at lower pro rata amount based on SNP

This Initial Summary Contract Design for Liffe Credit Default Swap Index Contracts and Event Protection Contracts (the "Contracts") are intended to provide an initial overview of the main terms of the Contracts and will be replaced by more detailed Summary Contract Specifications and full legal Contract Specifications prior to the launch the Contracts. Full details of the Exchange's policy in relation to the determination of credit events and the procedures for the creation of Event Protection Contracts will also be published before the Contracts are made available for trading. The Contracts are each based on an Index owned, managed, compiled and published by International Index Company Limited/Markit Group Limited. International Index Company Limited/Markit Group Limited owns all iTraxx® data and indices and the intellectual property rights therein. A licence is required from Markit Group Limited to create and/or distribute any product that uses, is based upon or refers to any iTraxx® index or iTraxx® data. Potential users of the Contracts should familiarise themselves with the terms of the Exchange Contracts and with the Index compilation and calculation procedures of International Index Company Limited/Markit Group Limited. Potential users should familiarise themselves with the details of the Exchange's policy in relation to credit events. It is important that the range of definitions of a credit event be fully understood by users of the Contracts, so that holders of positions in the Contracts are not taking on greater risks than they intend.

Further information

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