



Bclear – NYSE Liffe’s exchange-cleared solution for the OTC derivatives market

The Bclear service clears and processes OTC equity derivative trades and has expanded its service to include a number of other asset classes. NYSE Liffe explains its runaway success

In the wake of the credit crisis and the resulting collapse of a number of high-profile banks, there are moves by policy-makers and regulators in both Europe and the US to mitigate the systemic risk posed by over-the-counter (OTC) derivatives. It seems inevitable that the central clearing of certain OTC derivatives will be encouraged in the near future.

Exchange clearing of OTC derivatives is not a new phenomenon. NYSE Liffe, the international derivatives business of NYSE Euronext (the transatlantic exchange group formed in 2007), launched its Bclear service in late 2005 initially to process and clear OTC equity derivatives. It has since expanded its product range to include commodity derivatives and CDSs.

Bclear has been a runaway success and, to date, has cleared over 500 million contracts, with a notional value in excess of US\$10 trillion.

Growth of the OTC derivatives market

The OTC market has experienced phenomenal growth over the last decade as wholesale derivatives are used increasingly by the buy-side as risk management tools to diversify their portfolios and to try to outperform certain benchmarks. The discrete nature of the OTC market, along with its infinite range of possibilities, has also helped it to thrive.

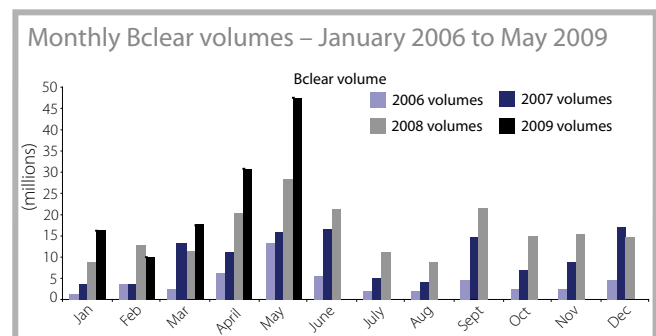
However, the inherent risks and operational inefficiency resulting from this growth prompted NYSE Liffe to work with customers to develop the award-winning Bclear service.

Bclear offers a broad combination of benefits: from reduced counterparty risk, where all contracts benefit from central counterparty clearing; operational risk – inherent in back-office administration of OTC transactions; to offering a flexible, private and cost-effective way to process OTC equity derivatives.

Flexibility, privacy and central counterparty clearing

Two of the key features that have made OTC trading so attractive are the privacy and flexibility that it offers, especially when compared with traditional listed markets. When you trade OTC there is no requirement to publish trades to the market. With Bclear, NYSE Liffe has replicated the OTC market and combined the best of both the exchange and OTC trading worlds.

With many Bclear contracts, not only can users choose whether or not to publish trades, they also have the flexibility to specify contract maturity, exercise price and settlement methods. It is essentially this



mix of flexibility and privacy, combined with the additional benefits of low fees, product choice and the security of central counterparty clearing, that has led to the broad adoption of Bclear.

Wide range of products

Bclear has expanded rapidly from the original 300 European stock options available at its launch in 2005. Today, futures and options on over 1,120 European, US and Asian single stocks and 13 European indexes are accessible via the service. In addition, NYSE Liffe recently launched futures on 13 MSCI benchmark indexes, including the MSCI World and MSCI Emerging Markets indexes.

Bclear’s product coverage is continually expanding, with new names added every month, most of which follow specific customer requests. Looking at the Nordic region in particular, Bclear covers all of the top blue-chip companies with around 100 names in total, including Nokia, Ericsson, Nordea, Telia Sonera and Danske Bank.

Success to date

Bclear has grown phenomenally, with current year-on-year growth at 44%. The volume on Bclear is largely thanks to the hedge fund community, whose demand has been instrumental in its growth. However, Bclear has proven to be popular among all market participants from existing exchange members to traditional asset-management firms.

With further initiatives in the pipeline and a steady flow of customer requests for new products, Bclear is set to continue to be an attractive way for market participants to access the lower-risk environment of an exchange and central clearing counterparty, while retaining the benefits of the OTC world.



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