

CFDs

A Clear Way Forward

LCH The Markets' Partner

EquityClear

Cleared Contracts for Difference (CFDs) are an excellent way to optimise resources, free up capital and improve operational efficiency. Through EquityClear, not only do you capture these benefits, but you can take advantage of market-leading risk and default management from one of the world's pre-eminent clearing houses.

CFDs allow a user to gain synthetic exposure to an underlying stock (or index) and can be used to hedge risk or finance equity positions in a balance sheet-friendly manner. These advantages are even greater in the cleared world, where the use of a CCP like LCH can reduce trade exposures through multilateral netting and in certain circumstances free up regulatory capital of members.

GROWING OPPORTUNITY

The OTC equity-linked derivatives market, of which CFDs are a subset, has grown to more than \$3.1 trillion notional outstanding globally.¹ But this is just the start. With OTC equity-linked derivatives falling under the OTC uncleared margin rules, there is now a compelling reason for the market to shift to clearing. With securities financing becoming more challenging for large global banks, there's already a migration of liquidity toward derivatives and clearing, due to the potential for considerable capital advantages, as well as the opportunity to boost performance.



¹<https://www.bis.org/statistics/d8.pdf>

CLEARING BENEFITS

01.

Reduce Position Exposures

Multilateral netting with a single counterparty for all trades offsets exposures and reduces position risk.

02.

Minimise Counterparty Risk

Reduced credit risk resulting from a central counterparty compared with the credit risk that exists in the bilateral trading market.

03.

Lower the Cost of Capital

Potentially lower regulatory capital cost compared with bilateral trading due to CCP risk methodology and risk netting.

04.

Streamline Operations

Simplification of cumbersome or costly operational processes; e.g., corporate actions, margining and cash settlement.

HOW IT WORKS

EquityClear's CFD service offers a secure way to drive value and in certain circumstances free up regulatory capital.



01. Participants "confirm" CFDs

02. Trade Source sends CFDs to LCH for clearing*

03. LCH checks eligibility criteria

04. LCH confirms CFDs have been novated

05. Trade Source confirms CFDs have been novated

06. LCH reporting is provided to participants

* Each with own trade ID

PRODUCT FEATURES

Reference Equities	Initially, European single name common stocks listed on main indices (approx. 600 stocks); US names will be offered subject to regulatory and internal approval	Corporate Actions	Outturns based on underlying equity; default option applied (elections may be offered in future)
Trade Submission	Via approved trading source	Flexible Dividend Rate	0-100%, as agreed by buyer and seller
Trade Registration Model	Novation to centrally cleared contract	Currency	GBP, EUR and CHF; same as currency of underlying equity
Maturity	Up to 100 days initially	Trade Rolls	Rolling trades can be booked intraday on a roll-at-close basis
Financing Rate	Fixed rate or spread to a benchmark as agreed by buyer and seller		

TO FIND OUT MORE, CONTACT US AT:

Phone +44 20 7392 8345
Email alex.krunic@lch.com

Phone +44 20 3197 4682
Email tom.archer@lch.com

Website www.lch.com

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