

Clearing Non-Deliverable FX Options

Unlock Efficiencies and Streamline FX Workflows

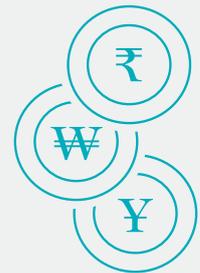
LCH The Markets' Partner

ForexClear

Global demand for cleared deliverable and non-deliverable OTC FX derivatives is rising, as market participants seek effective ways to reduce their margin and capital costs across their entire FX portfolio. To meet this growing need, ForexClear, LCH's FX clearing service, has partnered with the market to deliver clearing for Non-Deliverable Options (NDOs) across nine currency pairs.

The addition of clearing for NDOs complements ForexClear's current Non-Deliverable Forwards (NDFs), FX Options¹ and FX Forwards¹ product offering, creating new opportunities for margin, capital and operational efficiencies. Subsequently, access to a wider set of in-scope FX products for UMR enables participants to more effectively manage their initial margin (IM) requirements. Clearing NDOs also significantly increases opportunities for portfolio netting benefits with NDFs that are already cleared at LCH, allowing for lower margin, capital and operational costs.

¹Deliverable service is available to clearing members only



KEY BENEFITS

01.

Margin Efficiencies

FX Options are in scope for two-way IM exchange under UMR; clearing may offer savings of up to 85%² in IM costs vs bilateral requirements.



²LCH analysis

02.

Capital Savings

The standardised calculation for Risk Weighted Assets (RWA) permits a lower 2% counterparty risk weighing against a CCP, compared to a minimum of 20% against a AAA-rated entity, leading to lower capital costs for cleared NDOs vs bilateral FX Options.



03.

Reduced Operational Complexity

Clearing NDOs helps reduce operational complexity compared to bilateral FX Options, due to the lack of physical settlement (NDOs cash-settle via PPS) and cumbersome exercise/expiry processes.



THE FOREXCLEAR NDO OFFERING

NDO clearing is now available to ForexClear clearing members and buy-side clients (via a clearing broker) in four emerging market (EM) currency pairs, **BRL, KRW, INR, TWD**, and five G10 pairs, **AUD, EUR, GBP, JPY, CHF**, with a maximum tenor of two years.

Non-Deliverable Service

Non-Deliverable Forwards Non-Deliverable Options (NEW)
Members and Clients
NDF: 12 EM and 5 G10 Pairs NDO: 4 EM and 5 G10 Pairs (NEW) 2 Years Maturity
PPS



Deliverable Service

Vanilla FX Options FX Forwards FX Spots
Members
8 G10 Pairs 2 Years Maturity
PvP via LCH CLS CCP

NDO MARGIN SAVINGS

Clearing NDOs at ForexClear can result in significant margin savings across most portfolios compared with bilateral IM requirements calculated by ISDA SIMM, as the examples below highlight.

Type	Profile	Bilateral Margin (% Notional)	LCH Cleared Margin (% Notional)	Margin Saving ² (%)
Hypothetical	Long Call (1 mo. ATM)	4.6%	0.69%	85%
	Short Call (1 mo. ATM)	4.6%	1.9%	59%
	Hedged Call (1 mo. ATM)	0.9%	0.2%	73%
	Long Straddle	1.8%	0.5%	73%
	Long Strangle	0.6%	0.1%	77%

²LCH analysis

FX CLEARING ON THE RISE

ForexClear continues to see strong activity across its deliverable and non-deliverable FX services, clearing **\$753 bn** and **\$21 trn** respectively in 2021. December 2021 also saw new highs in open interest (OI) after the introduction of UMR Phase 5 in September 2021.

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