CFDs

A Clear Way Forward

LCH The Markets' Partner

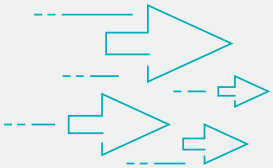
EquityClear

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 $2.8 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 which 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

Developed in partnership with Turquoise, 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 will check eligibility criteria

04. LCH confirms CFDs have been novated

05. Trade Source confirms CFDs have been novated

06. LCH reporting provided to participants

** Each with own trade ID*

PRODUCT FEATURES

Reference Equities	Initially, European single names common stocks listed on main indices (approx. 600 stocks)
Trade Submission	Via approved trading source
Trade Registration Model	Novation to centrally cleared contract
Clearing Account Types	House business only
Maturity	Up to 100 days initially; all CFDs expire at the underlying closing price
Financing Rate	Fixed rate or spread to a benchmark

Corporate Actions	Outturns based on underlying equity; default option applied (elections may be offered in future)
Dividend Rate	0-100%; initial offering will use a default rate applied by LCH per underlying ISIN
Currency	Same as currency of underlying equity
Call Option	Not available on initial offering; risk positions can be reduced or flattened by booking an equal and opposite trade
Trade Rolls	Rolling trades can be booked intraday on a roll-at-close basis

TO FIND OUT MORE, CONTACT US AT:

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