

Clearing Non-Deliverable FX Options

Unlock Efficiencies and Streamline FX Workflows

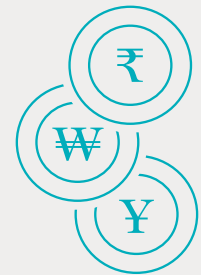
LCH The Markets' Partner

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.

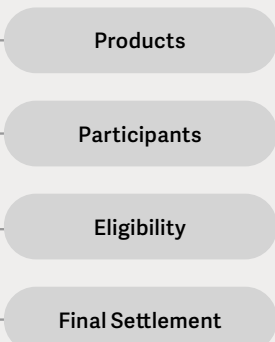


THE FOREXCLEAR NDO OFFERING

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 a daily average of approximately **\$72 bn** in FX transactions in 2020. Our members drove record volume growth and new highs in volume and open interest (OI) in H1 2020, with client clearing also reaching record levels.

CONTACT US

UK +44 (0) 20 7392 8311

US +1 212 513 5617

APAC +1 61 (2) 8259 4109

Email globalforexclearsales@lch.com

Website lch.com/services/forexclear

DISCLAIMER This document has been provided to you for informational purposes only and is intended solely as an overview of certain aspects of or proposed changes to services provided by LCH Group Holdings Limited or any of its group undertakings (group undertakings shall be construed in accordance with section 1161 of the Companies Act 2006) (collectively, "LCH Group"). This document does not, and does not purport to, contain a detailed description of any aspect of a service provided by LCH Group or any other topics discussed in this document, and it has not been prepared for any specific person. This document does not, and does not seek to, constitute advice of any nature. You may not rely upon the contents of this document under any circumstance and should seek your own independent legal, investment, tax and other advice. The information and any opinion contained in this document does not constitute a recommendation or offer with respect to any derivative contract, financial instrument, security or service. LCH Group makes no representation, warranty, condition or guarantee (whether express or implied) that the contents of this document are accurate, complete or up-to-date, and makes no commitment to offer any particular product or service. LCH Group shall have no any liability for any losses, claims, demands, actions, proceedings, damages, costs or expenses arising out of, or in any way connected with, the information contained in this document. Copyright © LCH Limited 2020. All rights reserved. SwapClear, ForexClear and SwapAgent are registered trademarks of LCH. The information contained in this document is confidential. By reading this document, each recipient agrees to treat it in a confidential manner and will not, directly or indirectly, disclose or permit the disclosure of any information in this document to any other person (other than its regulators or professional advisers who have been informed of the confidential nature of the information) without the prior written consent of LCH Group.