Credit Index Options Clearing
Mitigate Risk for Credit Derivatives Portfolios

RISK INNOVATION AT THE SERVICE OF THE CREDIT DERIVATIVES MARKET

CDSClear continues to extend its leadership in innovation through its partnership with the industry. Since launching the first clearing service for credit index options (CIOs) featuring the iTraxx Main and Crossover indices in 2017, CDSClear has delivered access to a growing pool of market makers and an expanding cleared notional product offering, including the recent addition of CDX HY and IG index options. By clearing CIOs at CDSClear, our members and their clients are able to reduce risk, increase operational efficiency and drive significant funding benefits.

WHAT IS CIO CLEARING?

Covering both inter-dealer and client flows, CDSClear is offering the industry's first and only CIO clearing service. Initially it enables you to clear one-month, two-month and three-month swaptions on these underlying indices:

- **iTraxx Europe Indices**
  - iTraxx Main 5Y OTR and OTR-1 Series
  - iTraxx Crossover 5Y OTR and OTR-1 Series

- **CDX.NA Indices**
  - CDX.IG 5YR OTR and OTR-1 Series
  - CDX.HY 5YR OTR and OTR-1 Series

WHO DOES IT HELP?

CIO clearing is an excellent risk management tool for banks, hedge funds and asset managers. So whether you are a trader, portfolio manager or risk/middle-office professional, it’s worth taking a look. We’ve already seen strong demand from the big banks, with eight dealers live and a number of clients in the process of onboarding.

WHAT ARE THE KEY BENEFITS?

Voluntary clearing of options gives clients the flexibility to reduce the risk of their entire credit derivatives portfolio.

01. **Capital Reduction**

Multilateral netting also reduces gross bilateral counterparty exposures down to a single net exposure to the CCP.

02. **Margin Offsets**

Swaptions and the delta on the underlying index can now be cleared together, enabling market participants to manage their cleared versus bilateral IM more efficiently, and realise offsets of up to 90% for delta hedged options.

03. **Operational Risk Reduction**

The Electronic Exercise Platform enables users to perform secure, anonymous exercise of cleared options in real time.

04. **Industry-wide Efficiencies**

CIO clearing results in increased market liquidity and price transparency.
CREDIT INDEX OPTIONS

Swaptions Underlying Indices
- iTraxx Europe Indices
  - iTraxx Main 5Y OTR and OTR-1 Series
  - iTraxx Crossover 5Y OTR and OTR-1 Series
- CDX.NA Indices
  - CDX.IG 5YR OTR and OTR-1 Series
  - CDX.HY 5YR OTR and OTR-1 Series

Option Type
- Receiver/Payer

Expiries
- 1M, 2M and 3M expiries

Exercise
- Options exercise available on expiry day only
- Exercise window:
  - 9 a.m. to 4 p.m. London time on expiry day (iTraxx only)
  - 9 a.m. to 11 a.m. ET on expiry day (CDX only)
- Options clearing service features an innovative Electronic Exercise Platform that facilitates electronic exercise of cleared index options on an anonymous basis

Strikes
- iTraxx Europe Indices
  - iTraxx Main index family: Multiples of 2.5bps
  - iTraxx Crossover index family: Multiples of 12.5bps
- CDX.NA Indices
  - CDX IG family: Multiples of 2.5bps
  - CDX HY family: Multiples of 0.5 cents

Approved Matching Provider
- Intraday Clearing service provided by MarkitWire
- Direct connectivity from other trading venues possible via Clearlink API

Settlement
- Physically settled, delivered Index CDS automatically cleared at CDSClear

Services
- Available for both member and client flows

CDSCLEAR BUILDS MOMENTUM IN OPTIONS NOTIONAL CLEARED

2019 vs 2020 iTraxx Options Notional Comparison

<table>
<thead>
<tr>
<th>Quarter</th>
<th>2019 Options Notional</th>
<th>2020 Options Notional</th>
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<tbody>
<tr>
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<td>Q4</td>
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<td>19 bn €</td>
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