CDSClear
Credit index options clearing
Mitigate risk for credit derivatives portfolios

Risk innovation at the service of the credit derivatives market
LCH 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, LCH 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 LCH 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, LCH CDSClear is offering the industry’s first and fastest-growing 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
- 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 large banks, with nine clearing members live and a number of their 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**
Facing the CCP lowers the capital risk weighting compared to facing a bank or clearing broker. 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**
Multilateral netting, the consolidation of multiple positions across a number of counterparties into a CCP net position, materially reduces operational risk by enabling a single expiry/exercise instruction per instrument. Our Electronic Exercise Platform, available to clearing members and their clients, 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.
Liquidity on the rise

The CDS clearing landscape is changing, with LCH CDSClear volumes and market share surging for more than 18 months. This reflects the growing popularity of a service that meets the needs of both members and clients.

- Market segment share calculation is based on notional values from CDSClear (www.lch.com) and ICE (www.theice.com) (excl. sovereigns)
- Notional is double sided and includes notional cleared of both European and US products (notional cleared in USD have been converted in EUR)
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A unique partnership

Built in partnership with the industry, LCH CDSClear is not only the fastest-growing CDS clearing service in the world but also the only European service that allows clients to:

- Cross-margin European and US indices, singles names and index options in a single CCP
- Clear credit index options

- Clear all senior and subordinated financial single names, including CDS on member banks, enabling clients to clear index arbitrage strategies to maximise margin efficiencies

Now, with even more opportunities on the horizon, there has never been a better time to join LCH CDSClear as a client.

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