

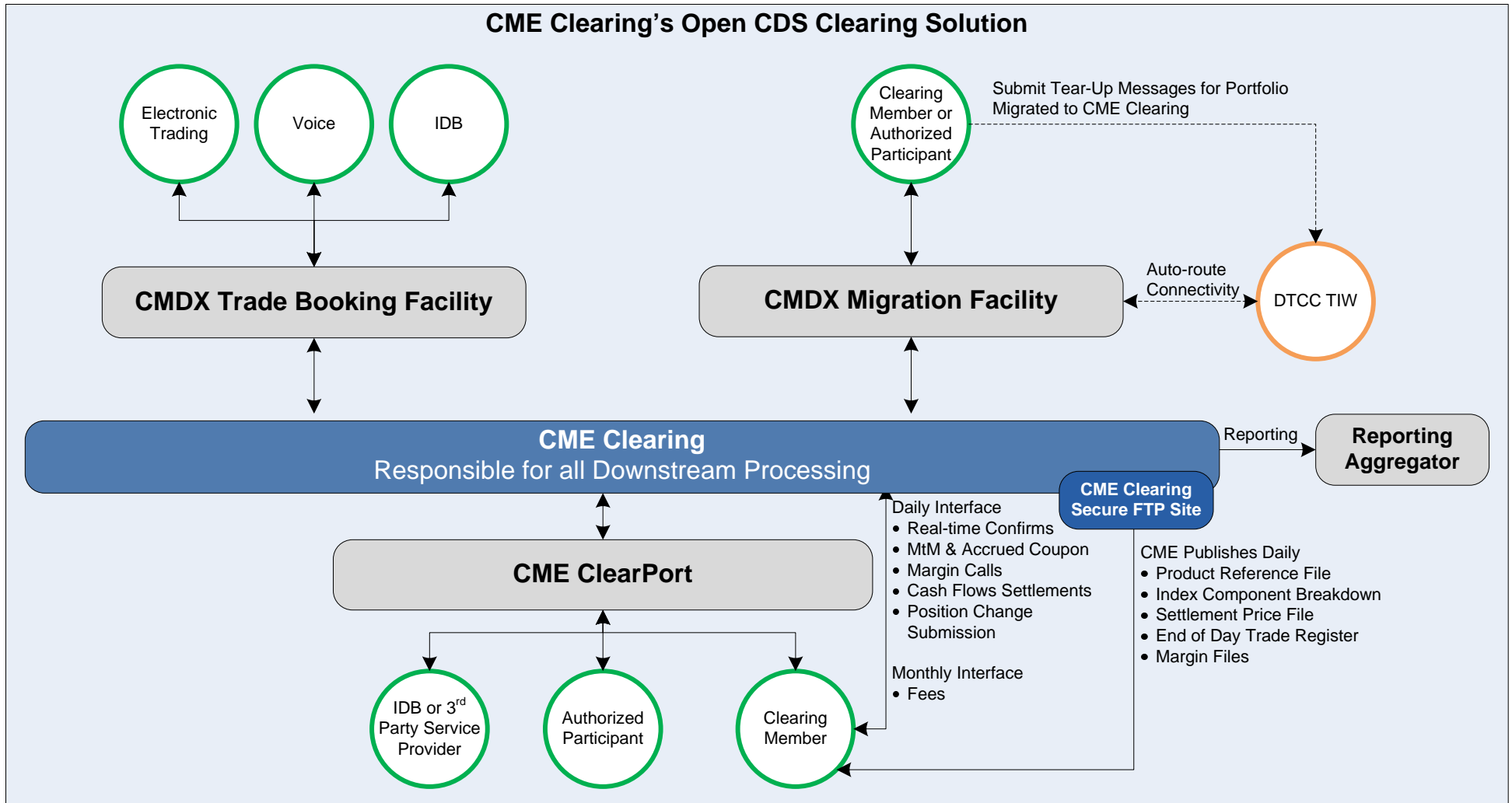
Open Credit Default Swaps Clearing Solution OMG Follow-up

Security, Neutrality, and Transparency

March 2009

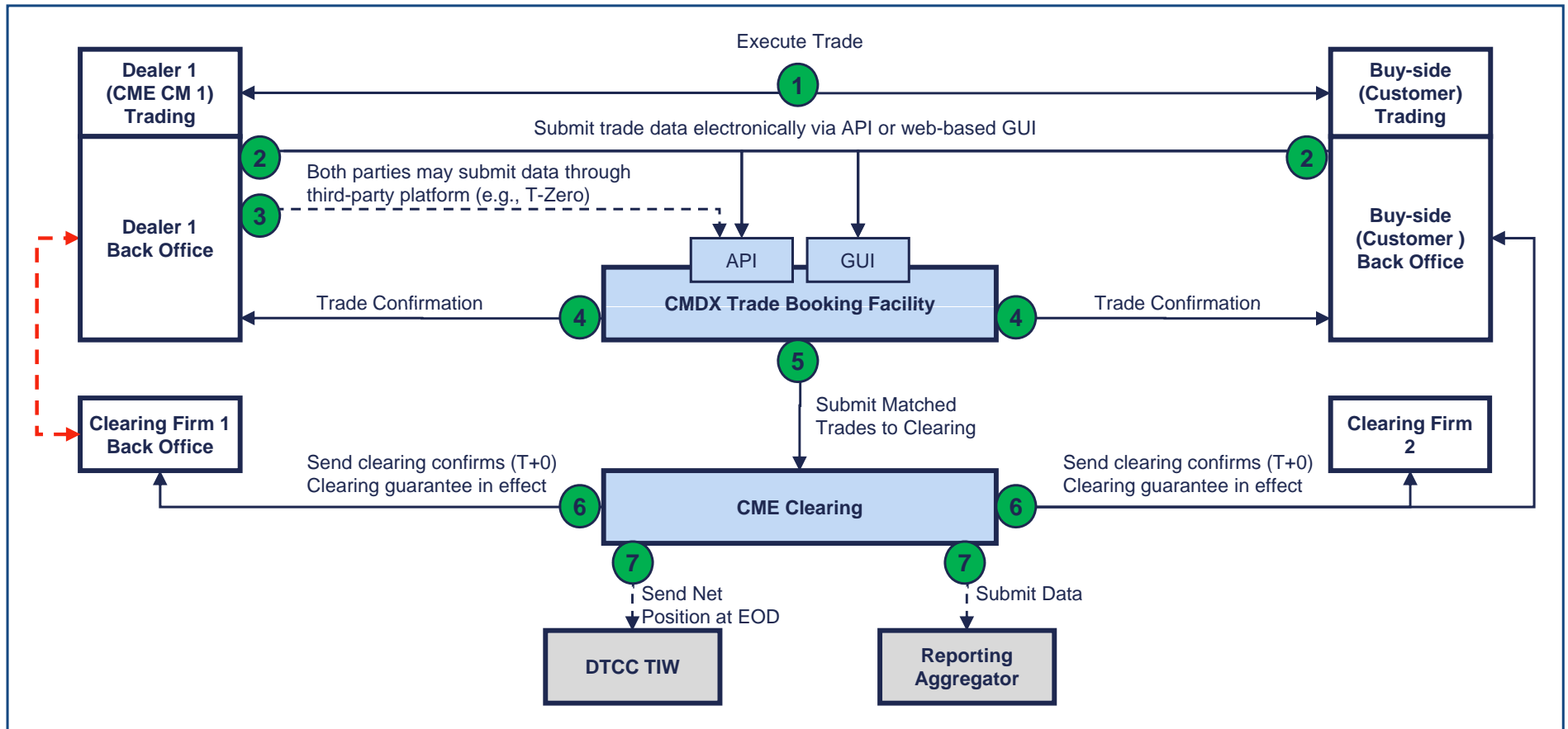
CME Clearing's Open Clearing CDS Architecture

Industry Framework for Managing CDS



Trade Processing

Capture Trades Directly through CMDX Trade Booking Facility



Trade Processing

CMDX Trade Booking Facility Overview

Benefits

- Efficient processing of trades straight through to clearing
- Enables market participants to negotiate bi-lateral contracts as they do in the OTC market; electronically, verbally or brokered
- Trade details validated against list of eligible contracts for clearing
- Trades validated against clearing credit limits (including risk exposure and position limits)
- Trade details are affirmed or matched against details submitted by the trade counterparty
- Trade confirmation is sent post submission
- Participants may submit electronically through API or web-based GUI

Assumptions

- Both parties to the trade agree to use CMDX Trade Booking Facility to submit trades to CME Clearing
- Details of trade are pre-negotiated and submitted by both parties: Contract, Side, Quantity, Price, Counterparty

Trade Capture

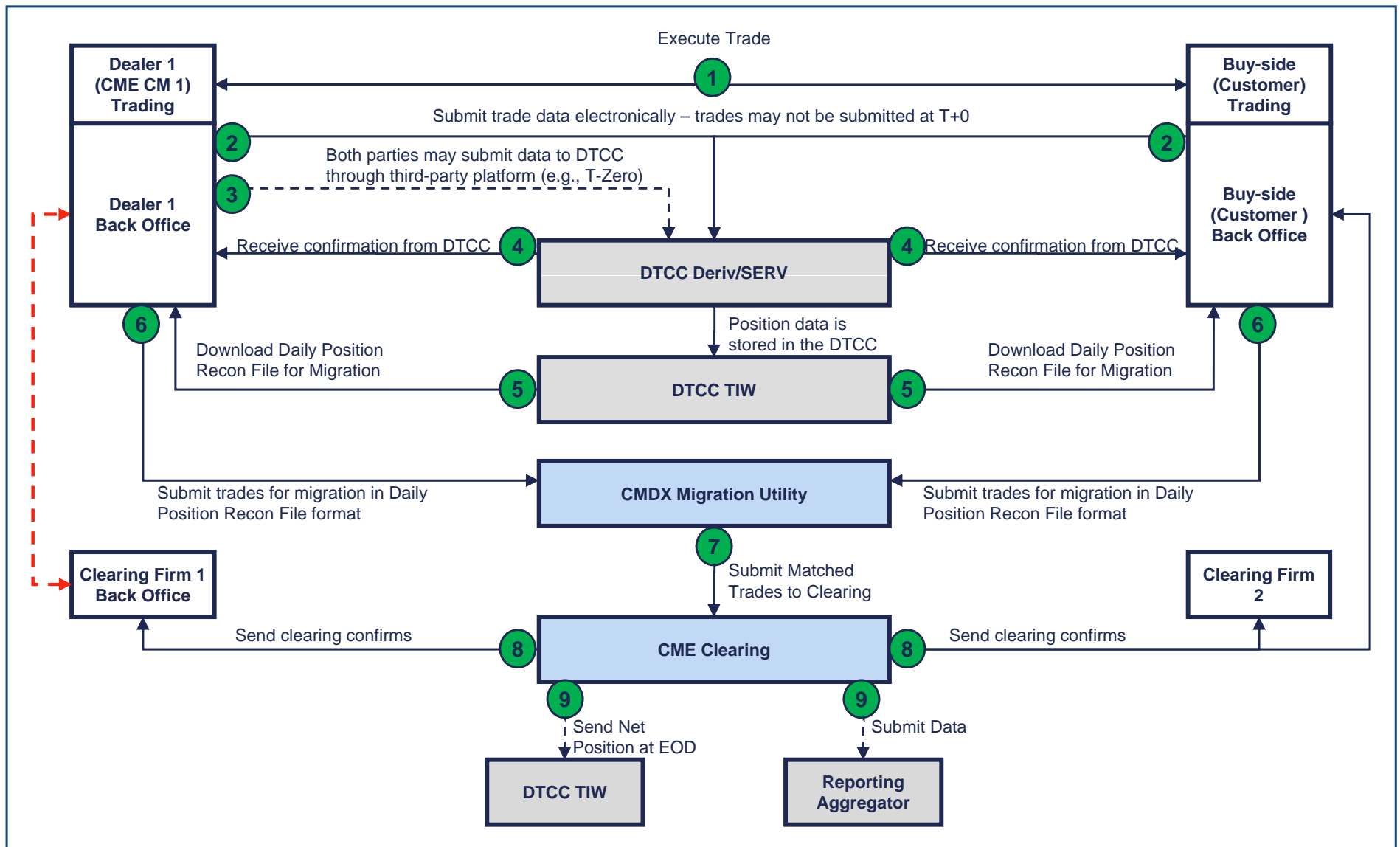
- API or web-based GUI
- Trade entry requirements
 - ✓ Contract – Drop down list provided for string (Name, Seniority, Restructuring Type, Maturity, Currency)
 - ✓ Side – Buy or Sell
 - ✓ Price – Compensation (in Bps) for the difference between the fixed coupon and the fair spread
 - ✓ Quantity – In increments of 100K
 - ✓ Counterparty – Drop down list provided

Managing Exceptions

- The “My Trades” tab records the status of transactions
 - ✓ Transaction listed as ‘Open’ will remain in that status until the trade counterparties submit matching trade details
 - ✓ Participants will be responsible for managing the ‘Open’ trades with their trade counterparties
 - ✓ CME Clearing Trade Processing will monitor the ‘Open’ trades
- If the counterparties’ trade details do not match, then one or both of the counterparties will have to delete the originally submitted trade details and re-enter the corrected trade details
- Trades are passed to CME Clearing after both counterparties have submitted matching trade details

Trade Processing

Capture Trades Post DTCC TIW Confirmation



Trade Processing

CME Clearing Post DTCC TIW Confirmation Overview

Benefits

- Participants are able to leverage their existing infrastructure to submit trades to CME Clearing
- CMDX Migration Utility is incorporated into CME Clearing's daily operational processing
- Trades validated against clearing credit limits

Assumptions

- Both parties to the trade agree to use CMDX Migration Utility to submit trades to CME Clearing
- Trade must be confirmed in TIW (i.e., have a status of 'CERTAIN')
- Upfront payments are settled bi-laterally between counterparties prior to migration to CME Clearing
- Participants are responsible for sending CME-generated 'Exit' messages to DTCC TIW to tear-up the original bi-lateral trade

Trade Capture

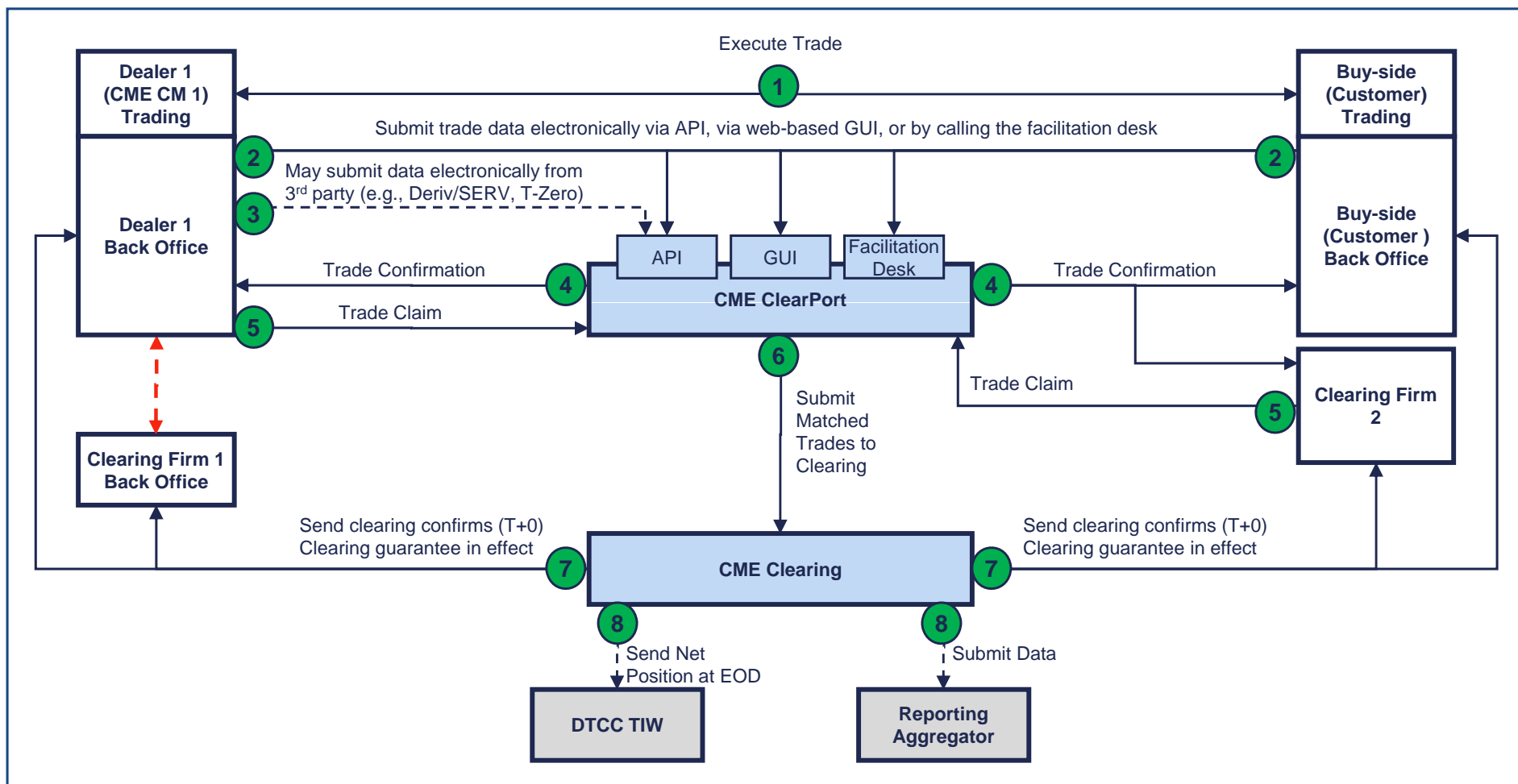
- Participants access DTCC TIW GUI, go to Reports, Report Download, "Deriv/SERV Position Recon Report"
 - ✓ Can be requested ad hoc via overnight cycle
 - ✓ Can make a request through the Relationship Manager to have report automatically routed to an ftp site daily
- Participants upload trades for migration to the CMDX Migration Utility using the "Deriv/SERV Position Recon Report" format
 - ✓ Trades are validated against list of eligible contracts for clearing
 - ✓ Trades are matched
 - ✓ Portfolio of trades are submitted to Clearing and vetted against clearing credit checks

Managing Exceptions

- Participants are able to view the migration process in real-time using the CMDX Migration Utility and monitor which of their counterparties has submitted matched trade details for migration
- If exceptions arise during the migration process, then CME Clearing will execute the following exception process:
 - ✓ Discussions are opened with the relevant participants to evaluate if the issue can be resolved without changing the composition of the submitted portfolio
 - ✓ If the composition of the submitted portfolios must change and this impacts additional counterparties, then these additional parties will be involved in further discussions
 - ✓ Once all issues have been resolved, one or more parties are allowed to resubmit portfolios for migration
 - ✓ As a last resort, CME Clearing may terminate the migration process to allow additional time for issues to be resolved

Trade Processing

Capture Trades through CME ClearPort



Trade Processing

CME ClearPort Trade Capture Overview

Benefits

- Efficient processing of trades straight through to clearing
- Enables market participants to negotiate bi-lateral contracts as they do in the OTC market; electronically, verbally or brokered
- Trade details validated against list of eligible contracts for clearing
- Trade details are affirmed or matched against details submitted by the trade counterparty
- Trade confirmation is sent post submission
- Participants may submit electronically through API, manually through a web-based GUI, or by calling the ClearPort facilitation desk

Assumptions

- Both parties to the trade are authorized to use CME ClearPort to submit trades to CME Clearing
- Trades are submitted by a broker, or by Facilitation Desk
- Details of trade are pre-negotiated: Contract, Side, Quantity, Price, Counterparty

Trade Capture

- Trades submitted for clearing are subject to risk acceptance parameters imposed by the clearing members

Managing Exceptions

- Trades may be rejected or considered invalid due to faulty or incomplete data, or failure of risk acceptance parameters. This will result in a trade status of failed
- Failed trade status is reflected on the trade blotter of ClearPort website
- CME Clearing trade processing team will make a good faith effort to call the counterparties, however participants will be responsible for monitoring the trade blotter
- Clearing Members will be notified of risk acceptance parameter violations, and will require adjustments to be made by the Clearing Member before the trade can be re-submitted for clearing