



# Preparing for OTC Derivatives Clearing


10 June 2010



markitSERV™

*A joint service from DTCC and Markit*

## How to ask a question

- We will be taking text questions throughout the session and will address as many as time permits at the end of the presentation.
- To submit a question, click on the chat symbol from the right side menu  and type in your question.
- From the Select Recipient dropdown menu on the bottom right corner, select “Q&A Group.”
- Click on Send.
- We will compile responses to any questions that we don't get to during the session, and distribute to all attendees.
- During the Q&A session, we will also be conducting a few ad hoc polling questions about your participation in the OTC derivatives marketplace. We will distribute the anonymous compiled responses to all attendees so you can get a feel for how your peers are participating.

# Agenda

- Regulatory Overview
- MarkitSERV Clearing Overview
- Q&A



# OTC Derivatives Regulation

Marcus Schüler  
Managing Director, Markit  
Regulatory Affairs



markitSERV™

*A joint service from DTCC and Markit*

## Current Status: United States

- House
  - OTC Derivatives bill (H.R.4173) approved on December 11, 2009
- Senate
  - OTC Derivatives bill (S.3217) approved on May 20
- Reconciliation of House and Senate bills expected over the coming weeks
  - Expect Senate bill to dominate
  - Changes to occur on some big issues, e.g. spin-off of swap desks
  - Some fine tuning on issues related to OTC derivatives clearing, trading and transparency
- Aim is to sign into law by July 4
- 180 days for Commissions to write the rules

# Big Themes

- Clearing

- Clearing Requirement if

- CCP applies for listing a swap
    - Commission approves based on relevant criteria and mandates clearing

- Commission to investigate and take appropriate action if swap is not offered for clearing

- Trading

- Definition of Swap Execution Facility (SEF)

- Not clear whether it will allow most forms of efficient execution

- Trading Requirement applies

- For mandatory cleared OTC derivatives
    - Product has to be offered for trading by exchange or SEF
    - Not required for clearing-exempted end users

## Big Themes (cont'd)

- Transparency

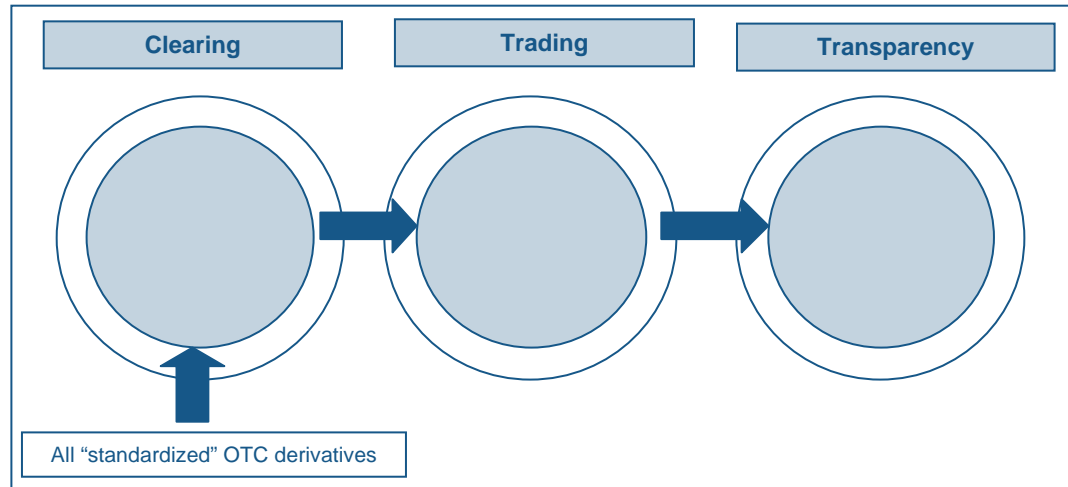
- MiFID-like regime

- Designed by the Commission to secure anonymity of counterparties, definition of and appropriate reporting delays for block trades, reflect impact of transparency on liquidity
    - Seems to require real-time reporting for all cleared swaps and reporting of aggregate information for non-cleared swaps

- TRACE-like delivery

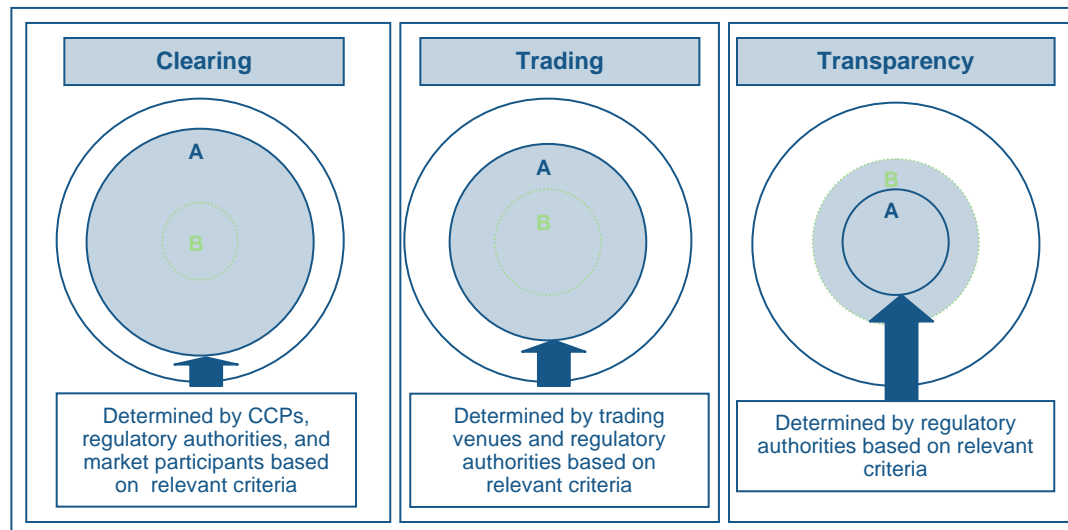
- Commission to require registered entity to report
    - Rules to demand timely reporting of trades to this entity

# Clearing, Trading, and Transparency Requirements



## Mandatory Approach

- Defines the relevant universe of OTC derivatives only once, and applies Clearing, Trading, and Transparency requirements to this same set of products regardless of asset class or product specifics
- Risks not achieving the goals of the respective requirements while causing unintended consequences



## Separate Optimization

- The scope of Clearing, Trading, and Transparency requirements are defined independent of each other to allow optimization according to their respective objectives and risks
- The relevant universe of OTC derivatives for the three requirements should vary depending on the characteristics of the different asset classes and products

## Current Status: Europe

- European Markets Infrastructure Legislation (EMIL)
  - To cover CCPs and Trade Repositories
  - Consultation expected soon
- MiFID review
  - To cover trading requirements as well as pre- and post-trade transparency
  - CESR consultation on non-equity market transparency
    - Post-trade transparency regime for bonds, CDS, structured finance, and OTC derivatives
    - MiFID type regime AND delivery
    - Also investigating whether there is a need to address pre-trade transparency
  - Further consultations in autumn with legislation expected to be in place early next year
- Bafin short selling ban and legislation
  - Legislation covers all German shares and their derivatives, sovereign bonds and CDS
  - Politically driven move that was not coordinated with other European countries, but will accelerate regulatory efforts



# MarkitSERV for Clearing

Eric Maldonado  
Managing Director  
Sales

markitSERV™

*A joint service from DTCC and Markit*

## Novation Consent = Confirmation for Rates

- Industry initiative with Fed commitments: Not a MarkitSERV initiative
- Goal is to remove email consent for rates novations
- 3 phases to adoption
- Phase 1: July 1 – removal of email consent for MarkitWire trades
- Phase 2: removal of email for interoperable trades
- Phase 3: all other trades
- Timelines for Phase 2 and 3 under discussion: originally September and October 1. Moved due to delays in interoperability.

## Novation Consent = Confirmation for Credit

- Industry initiative to unify existing two-step process of consent and then match a confirm into a one-step straight-through process
- C=C will impose a number of operational changes on firms
  - i.e. Trade must be confirmed in TIW before being able to novate
- C=C only when the step-in (EE) and remaining party (RP) are both FED 14 dealers
  - Applicable for *all* outgoing parties (transferors)
- Novation requests completed after 5:00p.m. EST T+1 will be deemed
- Industry go-live on September 30<sup>th</sup>
  - Testing underway

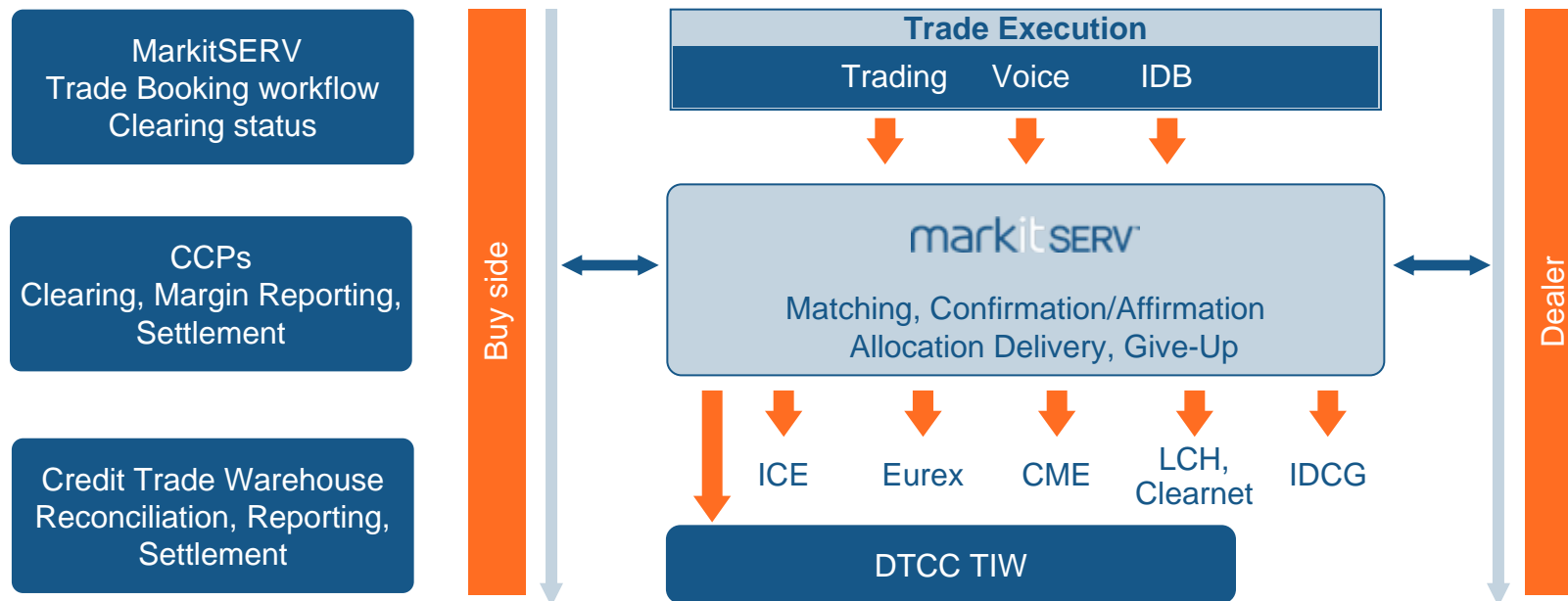
# MarkitSERV Consent = Confirmation

| Novation Consent Equal Confirmation Comparison Chart |  |  |
|--|--|--|
| Key Aspects  | Rates  | Credit   |
| Basic process  | OR initiates novation on MarkitWire platform by GUI or CSV on either existing MW trade or offline trade; EE & RP confirm/consent on MW | OR initiates novation in MarkitSERV Novation Consent Module (NCM); Warehouse copy frozen pending trade completion; EE and RP consent/confirm in NCM or by using MarkitWire; NCM generates novation in DSMatch (DSM); DSM sends legal wrapped record to Warehouse |
| Confirmation Legals                                  | MW Provisions, MarkitSERV Operating Procedures   | Warehouse Operating Procedures; MarkitSERV Operating Procedures; Novation Consent Supplement   |
| Confirmation   | 3-way in MarkitWire  | 3-way in DSMatch   |
| Platforms Traversed                                  | MarkitWire; Transformer (internal to MarkitSERV) post MQ deliverable in Nov  | Warehouse; Novation Consent Module; Transformer (internal to MarkitSERV); MarkitWire; DSMatch  |
| Key Industry Dates                                   | Industry Targets: July 1 for MW; Sep 1 for Interop; Oct 1 Ineligible or Unsigned Counterparties  | MS Deliverables: Jun 30 for EE in MW; July 30 for RP in MW; Industry Target: Sep 30  |
| Deemed Trades Treatment                              | Black ball in MW indicates time breach; Users withdraw to reject novation  | Reject button to action a deemed trade; automatic withdrawal on time breach  |
| Set Up   | MW already complete/DSM Counterparties in progress/Industry WG compiling names not on DSM or MW  | 1500 funds to be added to MW/Transformer   |
| Novation Consent Only                                | Supported - handles any ineligible product (offline Rates trade) and Counterparties that are not signed to either platform             | Not eligible for industry initiative of Consent=Confirmation. All trades still to be consented and where applicable, consent=confirmation flag will be passed to from the Novation Consent Platform to DSMatch for confirmation                                  |

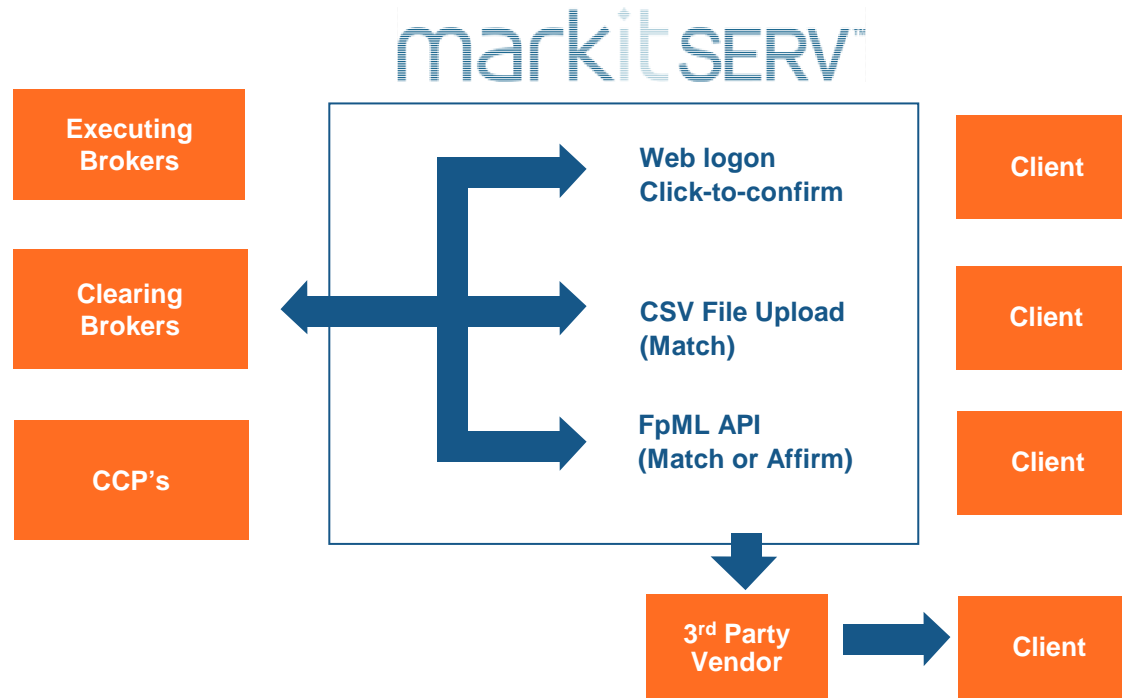
# MarkitSERV Clearing Overview

- MarkitSERV Clearing Architecture
- MarkitSERV Connectivity Methods
- MarkitSERV CCP Interface Summary
- Client Clearing Business Models
- MarkitSERV Trade Manager (MTM)
- MTM Client Clearing Scope
- MTM GUI

# MarkitSERV Clearing Architecture



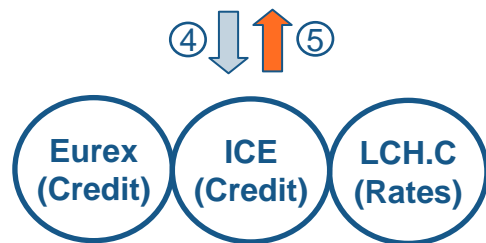
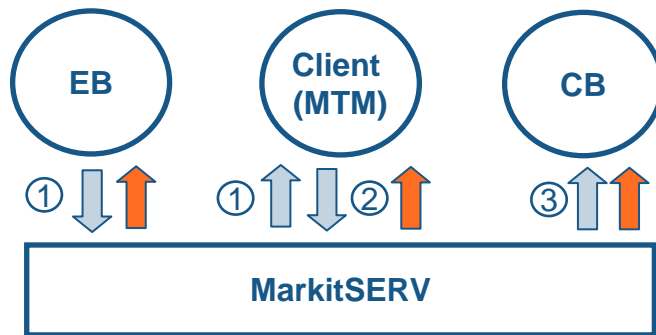
# MarkitSERV Connectivity Methods



# MarkitSERV CCP Interface Summary

| CCP/Type                             | Asset Class  | Allocation Handling   | EB Platform | CB Platform        | Client Platform                            | Client Counterparty on Cleared Trade |
|--------------------------------------|--------------|-----------------------|-------------|--------------------|--|--------------------------------------|
| Eurex - Client Clearing              | Credit       | All or Nothing        | MarkitSERV  | MarkitSERV         | MarkitSERV or 3 <sup>rd</sup> Party Vendor | CB                                   |
| ICE - Client Clearing                | Credit       | All or Nothing        | MarkitSERV  | MarkitSERV         | MarkitSERV or 3 <sup>rd</sup> Party Vendor | CB                                   |
| CME - Client Clearing                | Credit       | Split-by-Split        | MarkitSERV  | FEC                | MarkitSERV or 3 <sup>rd</sup> Party Vendor | CME                                  |
| LCH.C - Client Clearing              | Rates        | Block then Allocation | MarkitSERV  | MarkitSERV         | MarkitSERV or 3 <sup>rd</sup> Party Vendor | CB                                   |
| IDCG - Client Clearing               | Rates        | Split-by-Split        | MarkitSERV  | MarkitSERV or IDCG | MarkitSERV or 3 <sup>rd</sup> Party Vendor | IDCG                                 |
| ICE - Interbank<br>LCH.C – Interbank | Credit Rates | N/A                   | MarkitSERV  | MarkitSERV         | N/A  | N/A                                  |
| IDCG - Interbank                     | Rates        | N/A                   | MarkitSERV  | MarkitSERV or IDCG | N/A  | N/A                                  |

# Client Clearing Workflow Overview



1. Match/Affirm
2. Allocate
3. CB take-up before.....
4. Submission to CCP
5. Cleared Notification



1. Match/Affirm
2. Allocate
3. Submission to CCP before....
4. CB(s) take-up
5. Cleared Notification

# MarkitSERV Trade Manager (MTM)



- Reduces operational risk and promotes STP by facilitating a consistent workflow across derivative asset classes and now, multiple CCPs.
- More than 60 buy-side firms and several global fund administrators use MTM.
- A user-friendly, Web-based platform providing OTC processing functionality, including:
  - Integrates with non-cleared trade flows
  - NEW! Clearing submission to a number of Clearing Houses

## MTM Client Clearing Scope

- Follows CCPs coverage; MTM will cover all credit products supported by the respective CCP.
- CCP Credit Product coverage broadly geographical:
  - ICE Clear/Eurex/LCH S.A supports iTraxx
  - ICE Trust/CME supports CDX
  - CME supports NA single names
  - Eurex/LCH S.A. supports European single names
- Rates Product Coverage
  - Interest Rate Swaps (IRS)
  - Overnight Index Swaps (OIS)
  - Zero Coupon (ZC)

# MTM GUI

markitSERV™

Tie-Outs **Tie-Outs (New)** Confirmations Admin

Overview :: Buyside ↔ Dealer :: Buyside → Dealer :: Novation Blotter :: Reports

Any Status All Types All Types All Trade Dates All Counterparties All Products

1 2 3 4 5 6 7 8 9 10 Next Page All Page 1 (records 1 - 20 of 1730)

| Status            | Clr Status | M | A | Trade Id      | Cpty | Trade Date  | Maturity    | Type | Product | CCY | Index/Underlyin |
|-------------------|------------|---|---|---------------|------|-------------|-------------|------|---------|-----|-----------------|
| Alleged           | N/A        |   |   | TESTTRADE1001 | AAA  | 03-Apr-2010 | 30-Mar-2012 | New  | IRS     | USD | USD-LIBOR-BBA   |
| Disputed          | N/A        |   |   | TESTTRADE1002 | AAA  | 03-Apr-2010 | 30-Mar-2012 | New  | IRS     | USD | USD-LIBOR-BBA   |
| Alleged           | IFC-LCH    |   |   | TESTTRADE1003 | AAA  | 16-Apr-2010 | 20-Jul-2010 | New  | IRS     | USD | USD-LIBOR-BBA   |
| Awaiting Clearing | RDY-CME    |   |   | TESTTRADE1004 | AAA  | 16-Apr-2010 | 20-Jul-2010 | New  | CDS     | USD | 2165BRBJ8       |
| Awaiting Clearing | PND-ICEC   |   |   | TESTTRADE1005 | AAA  | 16-Apr-2010 | 20-Jul-2010 | New  | CDS     | USD | 2165BRBJ8       |
| Cleared           | CLR-CME    |   |   | TESTTRADE1006 | AAA  | 16-Apr-2010 | 20-Jul-2010 | New  | CDS     | USD | 3J79DK          |

1 2 3 4 5 6 7 8 9 10 Next Page All Page 1 (records 1 - 20 of 1730)

- Clients can view submitted trades with real-time clearing and affirmation status.

Q and A

?

markitSERV™

# Thank you

Thank you for your participation.

If we can help you in any way, please contact us for immediate assistance:

Eric Maldonado  
Managing Director  
MarkitSERV Sales

212-205-1318 desk  
[eric.maldonado@markitserv.com](mailto:eric.maldonado@markitserv.com)

[www.markitserv.com](http://www.markitserv.com)

markitSERV™

## Disclaimer

*The content, information and any materials (“data”) provided by MarkitSERV and/or its group companies (“MarkitSERV”) in this presentation is on an “as is” basis. MarkitSERV expressly disclaims all warranties, expressed or implied, as to the accuracy of any data provided, including, without limitation, liability for quality, performance and fitness for a particular purpose arising out of the use of the data.*

*MarkitSERV shall not have any liability, duty or obligation for or relating to the data contained herein, any errors, inaccuracies, omissions or delays in the data, or for any actions taken in reliance thereon. In no event shall MarkitSERV be liable for damages, including, without limitation, damages resulting from lost data or information or lost profits or revenue, the costs of recovering such data, the costs of substitute data, claims by third parties of for other similar costs, or any special, incidental, or consequential damages, arising out of the use of the data.*

*Any unauthorised use, including but not limited to copying, distributing, transmitting or otherwise of any data appearing may violate the intellectual property rights of MarkitSERV under any intellectual property laws such as copyright laws, trademark laws and communications, regulations and statutes.*