

Credit Overview

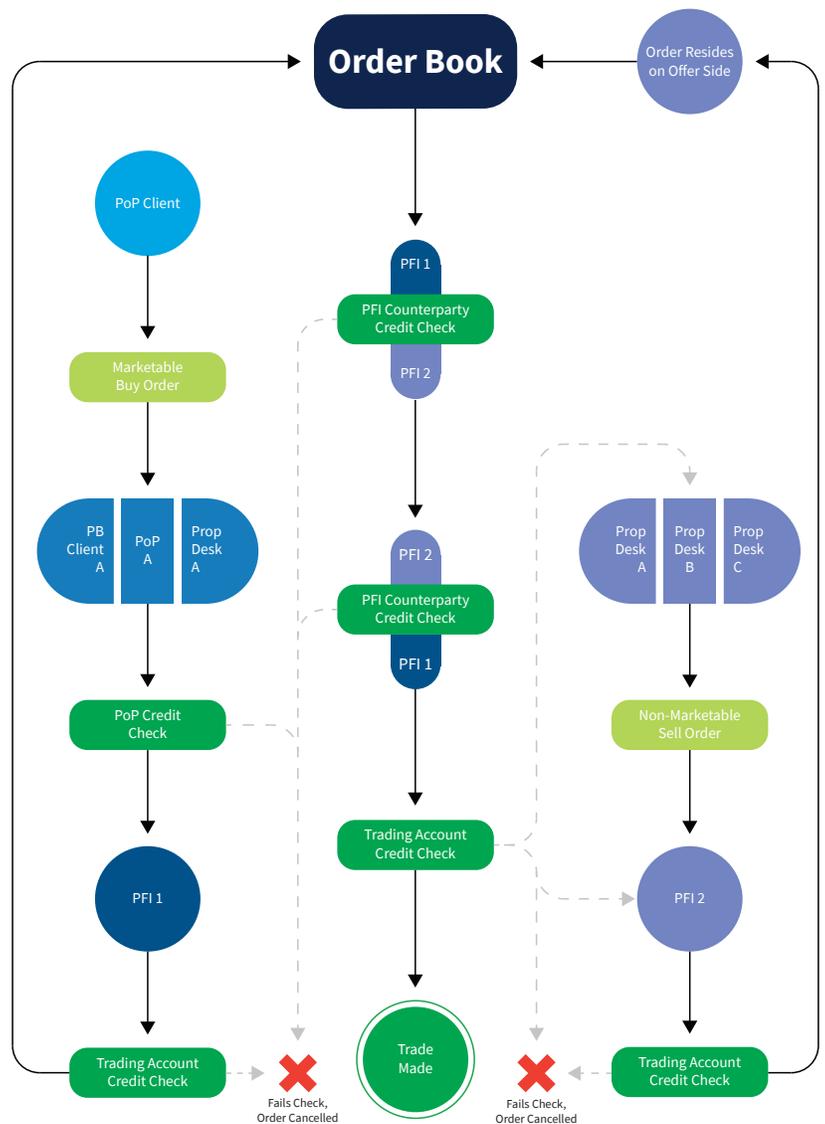
Cboe FX provides a multilateral credit system that enables Participating Financial Institutions (PFIs), our network of leading FX dealers and clearing banks, to dynamically manage credit allocations for trading activity, and monitor exposure to clearing counterparties. All PFIs can create tiered account structures to support any combination of proprietary trading activity or client trading activity via prime brokerage (PB) and prime of prime brokerage (PoP, i.e. reseller of credit) businesses.

Every order submitted to Cboe FX is subject to a minimum of two pre-trade credit checks: (1) PFI-to-trading account (proprietary or that of a PB client), and (2) a PFI-to-PFI (i.e. between clearing counterparties). The first check is internal to the PFI, ensuring no individual trading account, whether proprietary or that of a PB client, exceeds the credit limit assigned by the PFI. The second check certifies that an executed trade would not result in either PFI exceeding its predetermined credit limit with its PFI (clearing) counterparty. This check is performed instantly for marketable (aggressive) orders. Non-marketable orders will sit on the order book and undergo a check before being matched with another order. If two trading accounts clear through the same clearing counterparty (e.g. a bank's prop desk versus a PB client), then the PFI-to-PFI check is not performed. In a prime of prime scenario, an additional credit check takes place prior to the two above, ensuring that the end user (PoP trading client) does not breach the credit limit defined by its PoP broker. If a credit limit is breached during any of the pre-trade credit checks, the order will be rejected by the Cboe FX system.

The allocation of credit limits for each trading account and PFI counterparty is currently managed by bank/prime staff via the Cboe FX PB Admin credit portal. Cboe FX automatically monitors credit utilization in real-time, and sends email alerts to its customers as utilization crosses 75%, 90%, and 95% on any credit line. A PFI may then opt to increase a credit line or cease trading activity. If a line reaches 90% and has not been addressed, the Cboe FX liquidity desk will contact the PFI directly to ask for instructions. If instructed by the PFI, the Cboe FX liquidity desk can increase the credit line on its behalf.

Figure 1 details the workflow of a PoP trading client's marketable buy order matching with a prop desk's non-marketable sell order to produce a trade. The various credit checks throughout the orders' lifecycles are noted, and the orders can only continue on if the checks are passed.

Figure 1 Credit Workflow of a Sample Trade



CLS and Non-CLS Pairs

PFI can elect to include/exclude different currency pairs/products from the credit lines they extend to clearing counterparties in any combination of the following groups:

- CLS pairs (<http://www.cls-group.com/ABOUT/Pages/Currencies.aspx>)
- Non-CLS pairs
- Metals (Gold, Silver, Platinum and Palladium)
- Forwards

Each PFI can maintain only one limit against each counterparty PFI, and can choose among the currency/product groups above. It is not currently possible to manage four discrete limits for each currency pair/product categories in parallel.

Note that there is no change to the credit structure/management process for Forwards trades.

Exposure Calculation

Cboe FX calculates currency exposure trading by breaking down positions in different pairs into individual currencies to arrive at the net position per currency. Cboe FX then uses the sum of the USD equivalent of all short positions, including the USD position if it is short, to determine exposure. Cboe FX uses the current midpoint rate in the Cboe FX marketplace in all calculations. Examples below:

#	Currency	Currency Amount	Rate	Counter Currency	Counter Amount
1	EUR	(6,455,244.50)	1.549128	USD	10,000,000.00
2	USD	(10,000,000.00)	96.867461	JPY	968,674,610.00

In this example the net positions are:

- EUR (6,455,244.50)
 - JPY 968,674,610.00
 - USD flat
- Exposure = SUM (USD equivalent of short positions) =
(USD rate * EUR 6,455,244.50) = USD 10,000,000.00

#	Currency	Currency Amount	Rate	Counter Currency	Counter Amount
1	EUR	10,000,000.00	1.510423	CHF	(15,104,230.00)
2	USD	(12,500,000.00)	0.996382	CHF	12,454,775.00
3	EUR	(10,000,000.00)	134.195165	JPY	1,341,951,650.00
4	USD	12,500,000.00	96.867461	JPY	(1,210,843,262.50)

In this example the net positions are:

- EUR flat
 - USD flat
 - CHF (2,649,455)
 - JPY 131,108,387.50
- Exposure = SUM (USD equivalent of short positions) =
(USD rate * CHF 2,649,455) = USD 2,639,869.27

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