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## FCM 1.20 Account Segregation – Operations Considerations

FIA Segregation Sub-committee meeting with CFTC

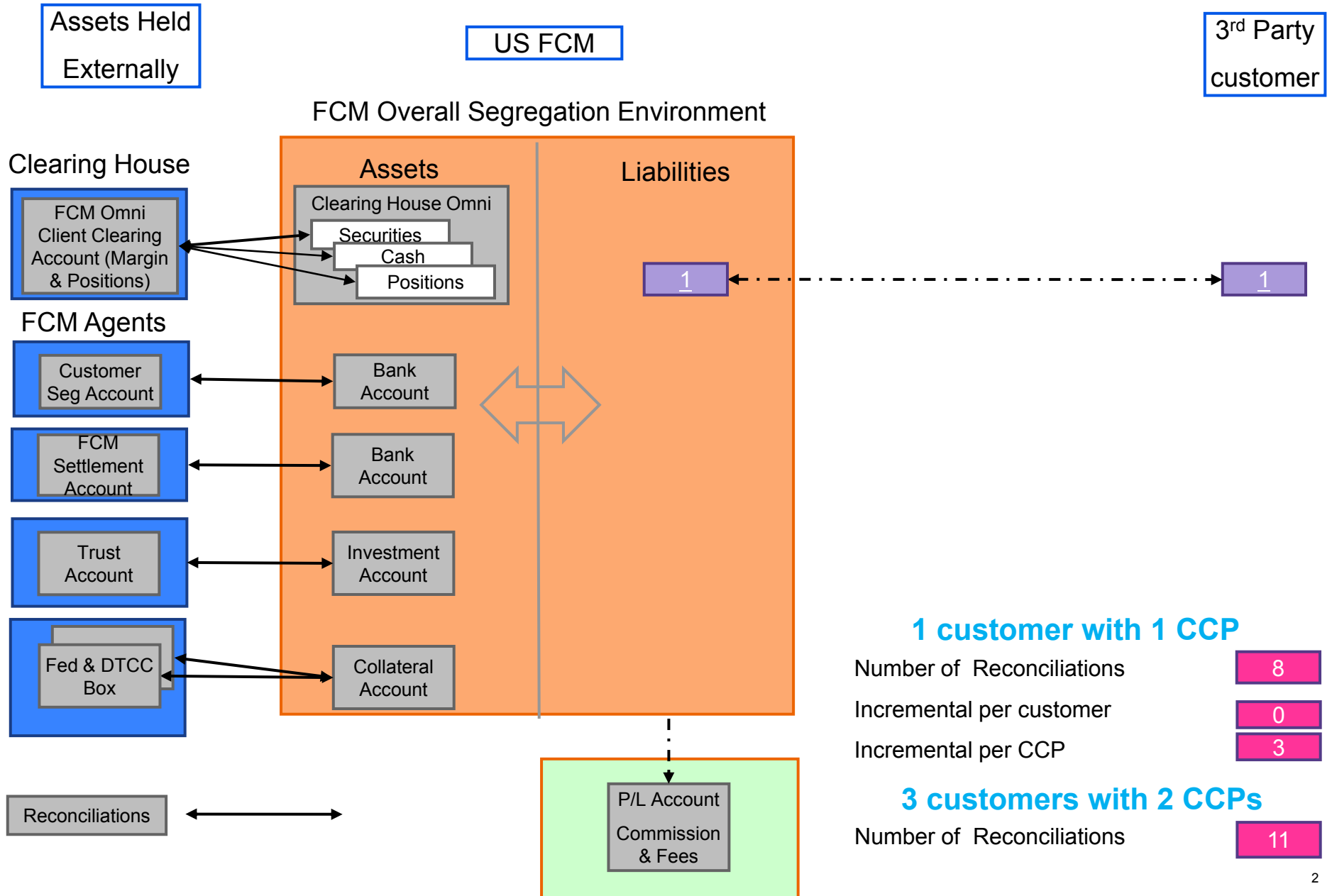
Washington, 15 September 2010

# Agenda

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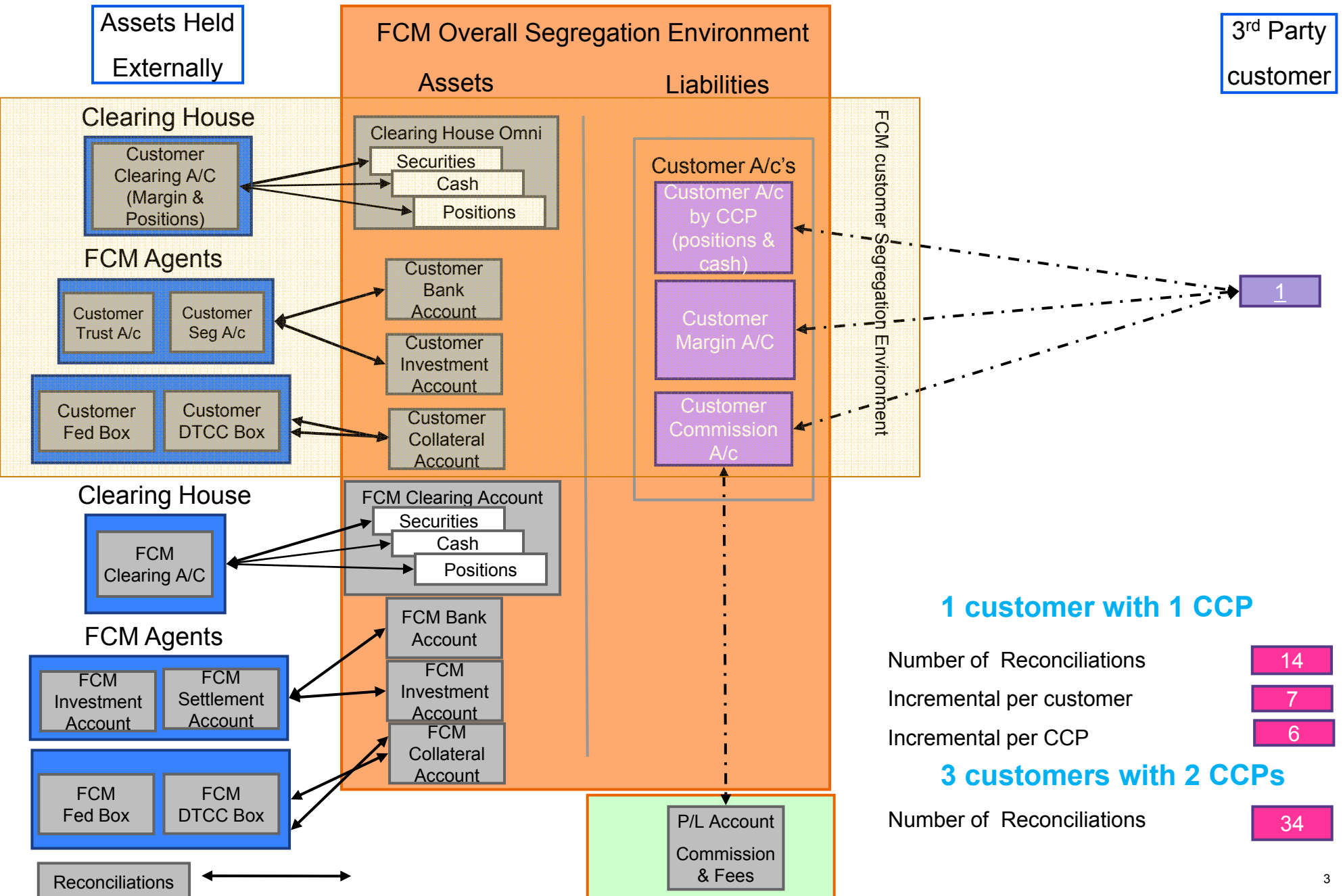
- ◆ Introduction & Overview 2:00 - 2:10
- ◆ Key areas of consideration (1) 2:10 – 2:45
  - Account Structures
  - Omnibus accounts
  - Reconciliations
- ◆ Key areas of consideration (2) 2:45 – 3:20
  - Cash Flows with Clearing House
  - Cash Flows with Customers
- ◆ Summary Considerations – Operations and Systemic Risk 3:20 – 3:35
- ◆ Current Financial Safeguards 3:35 – 3:45
- ◆ Wrap Up 3:45 – 4:00

# Direct Accounts: Current State



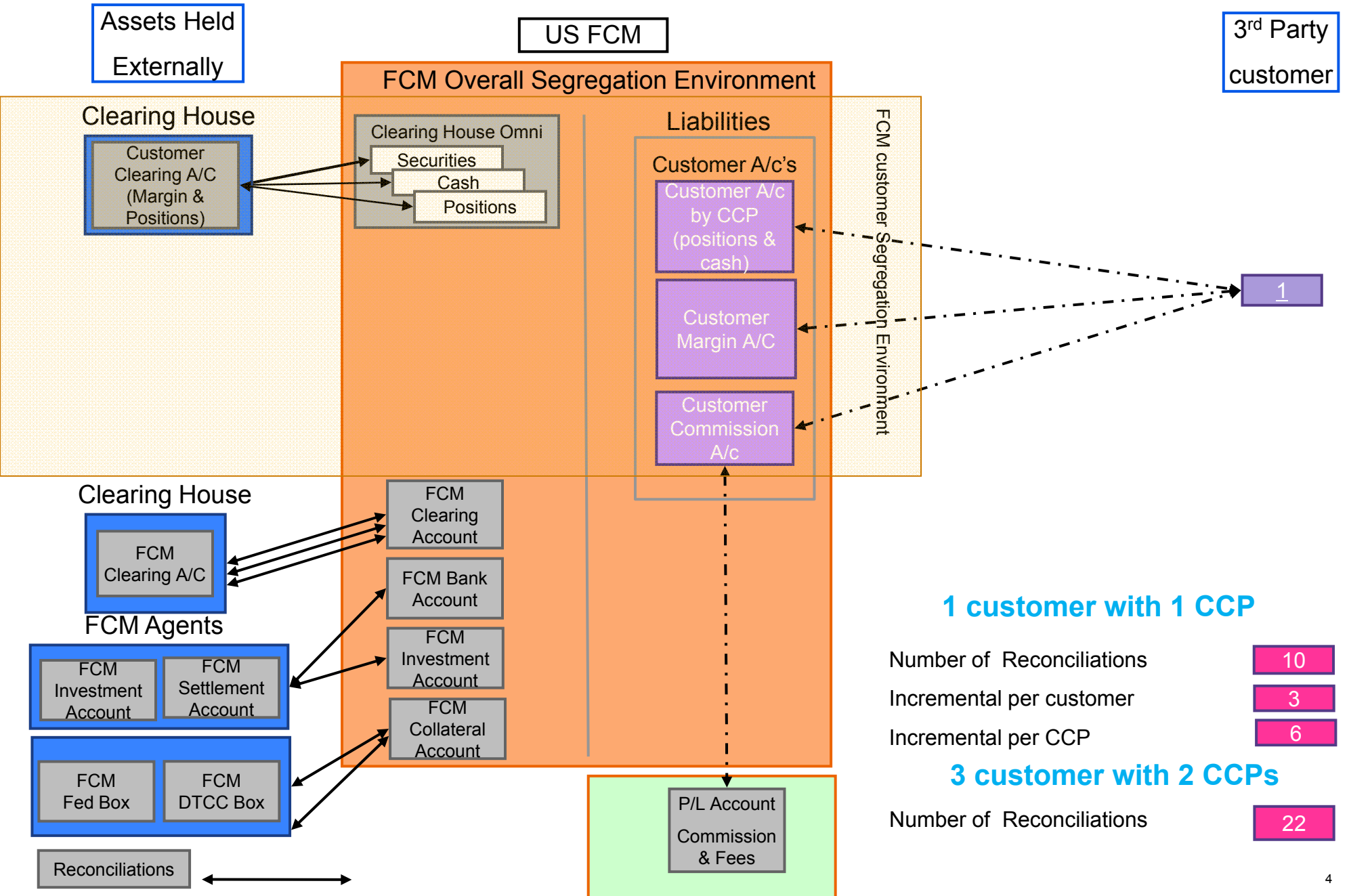
Diagrams are meant to show key flows and accounts only and are not an exhaustive representation of the clearing environment

# Direct Accounts – CCP & FCM Segregation: Possible Future State



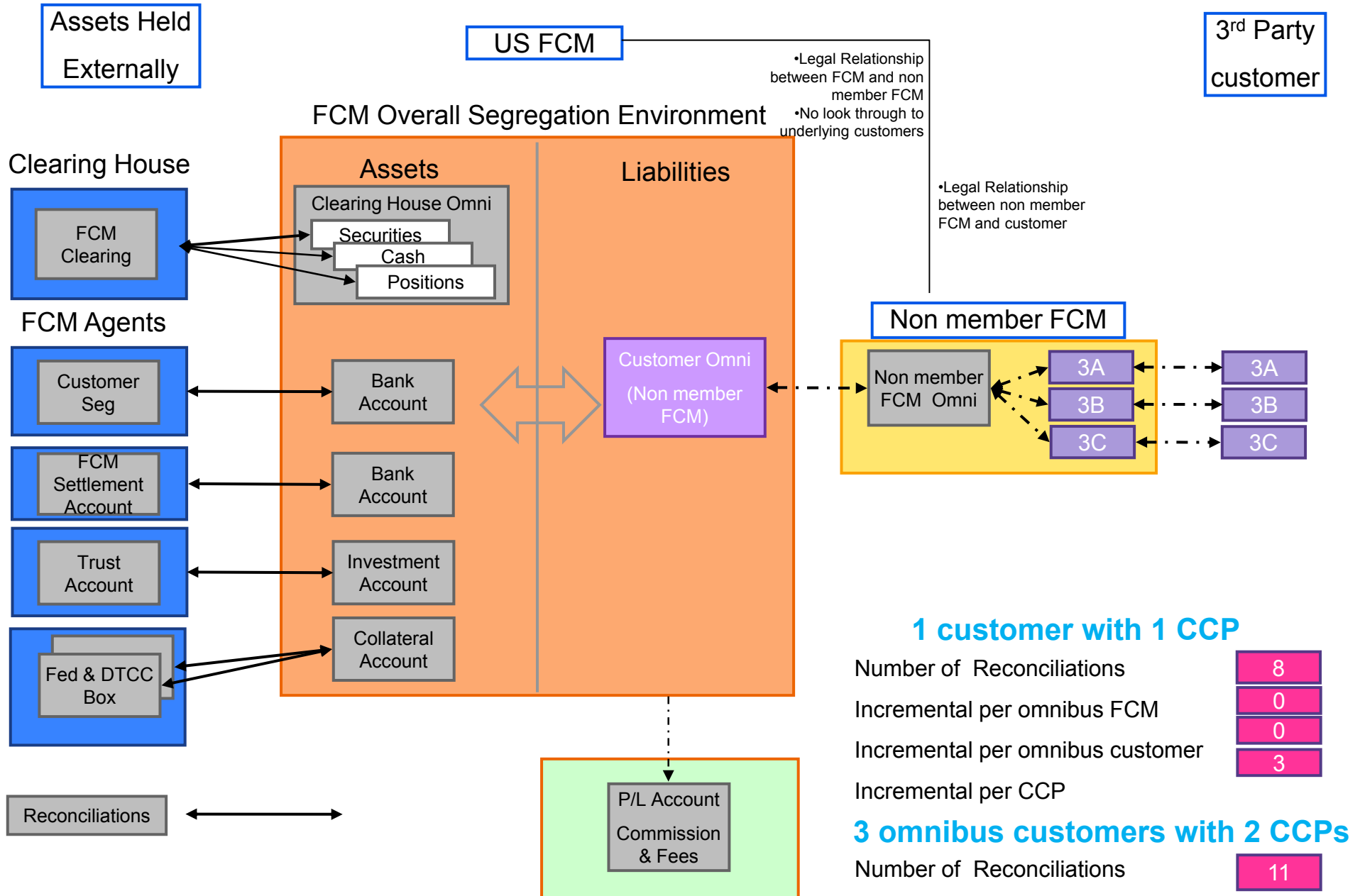
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# Direct Accounts – CCP Segregation Only: Possible Future State



Diagrams are meant to show key flows and accounts only and are not an exhaustive representation of the clearing environment

# Omnibus Accounts: Current State



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# Omnibus Accounts – CCP & FCM Segregation: Possible Future State

Assets Held Externally

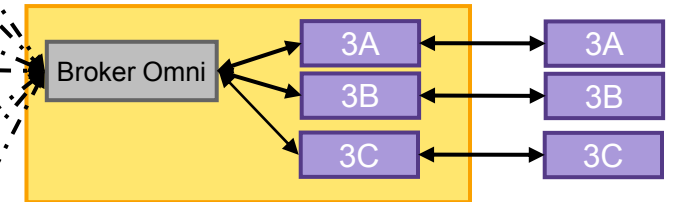
US FCM

FCM Overall Segregation Environment

3<sup>rd</sup> Party customer

•Tri party legal Relationship between FCM, non member FCM and underlying customer

Non member FCM

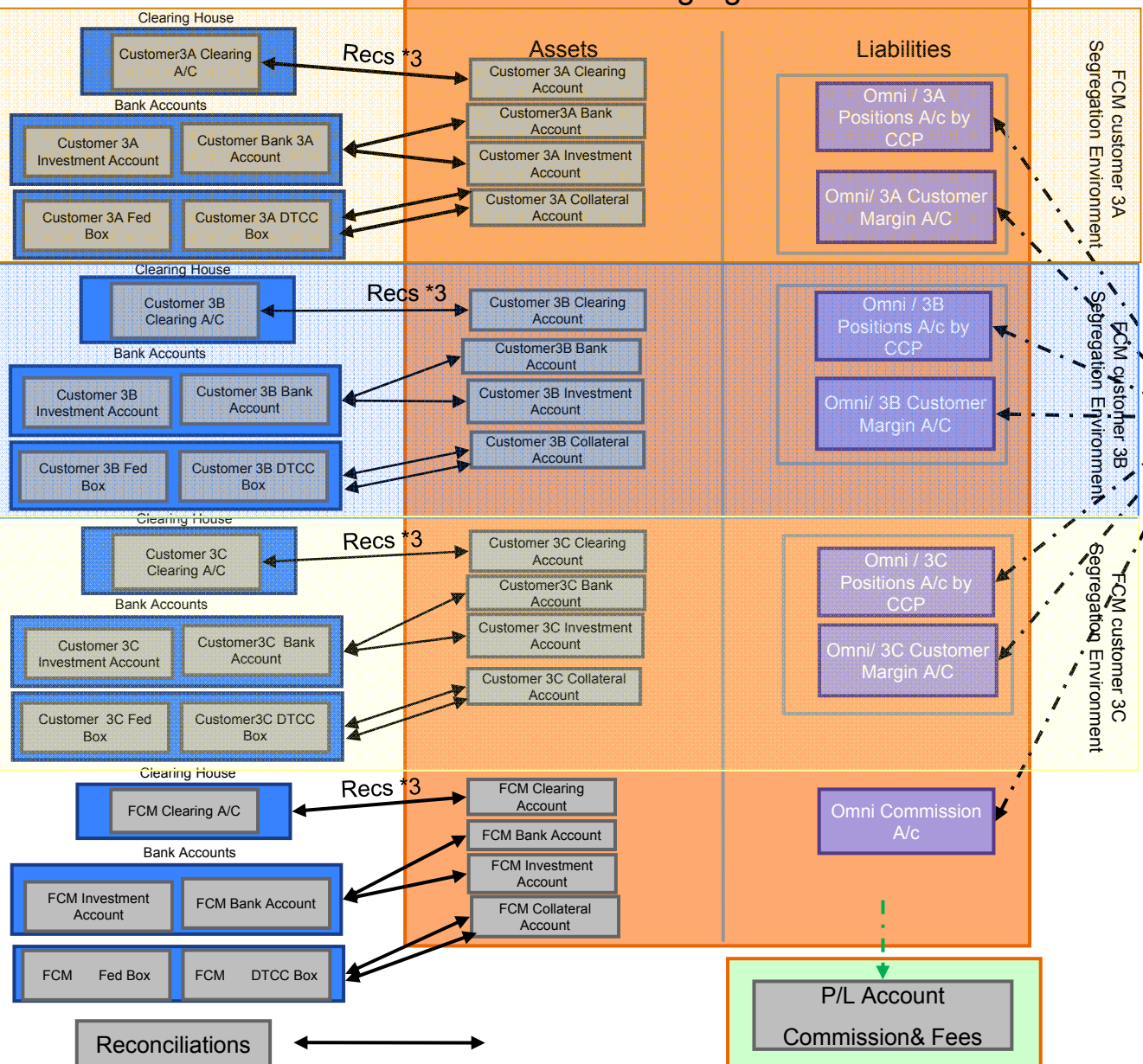


**1 Omni A/c with 3 customers, 1 CCP**

Number of Reconciliations	28
Incremental per omnibus FCM	7
Incremental per omnibus customer	7
Incremental per CCP	12

**1 Omni A/c with 10 customers, 2 CCP**

Number of Reconciliations	89
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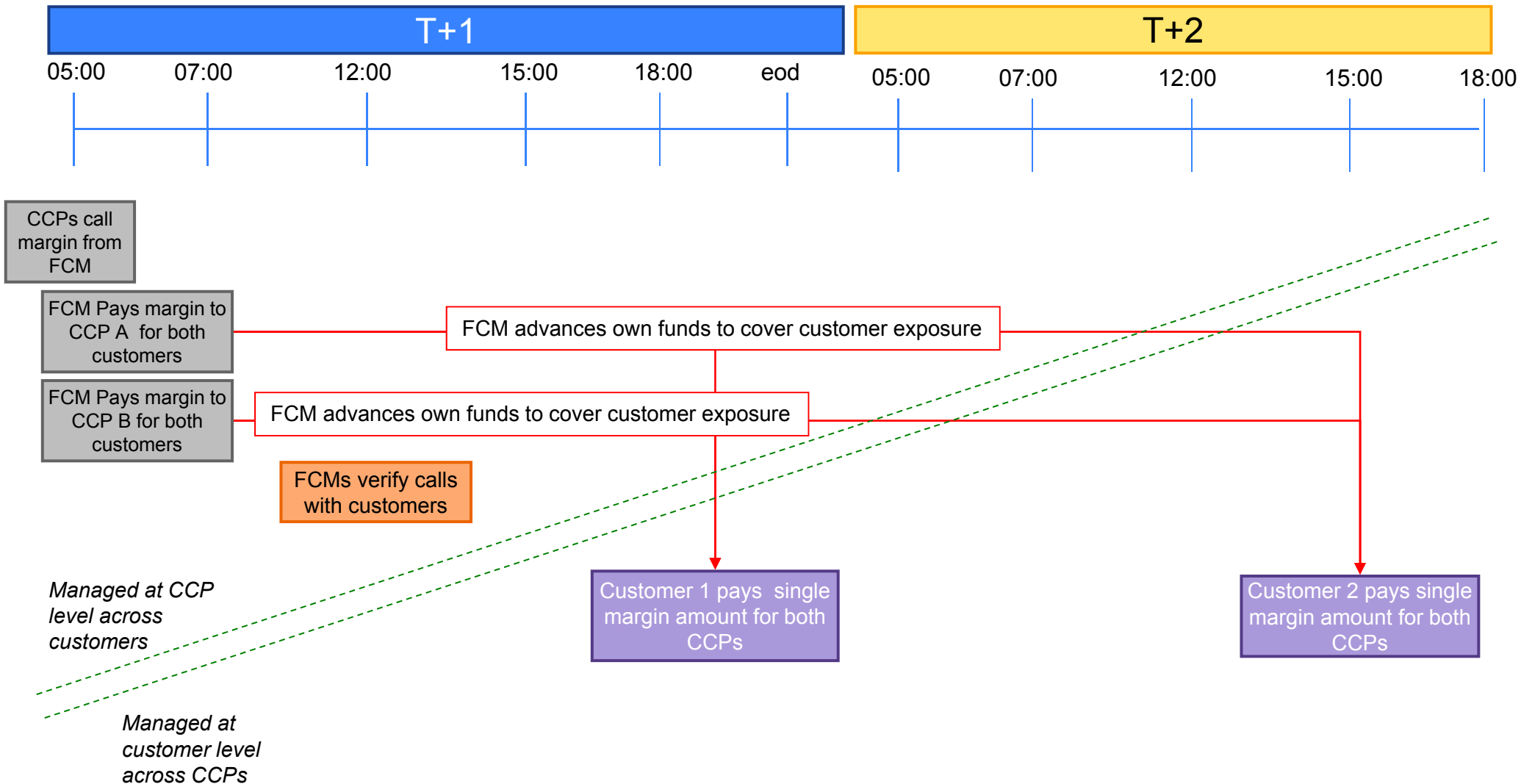
Reconciliations

P/L Account  
Commission & Fees

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# Start of Day Margin Processing Timelines - Today

Scenario: Two customers, two CCPs, customer 1 pays on T+1, customer 2 pays on T+2



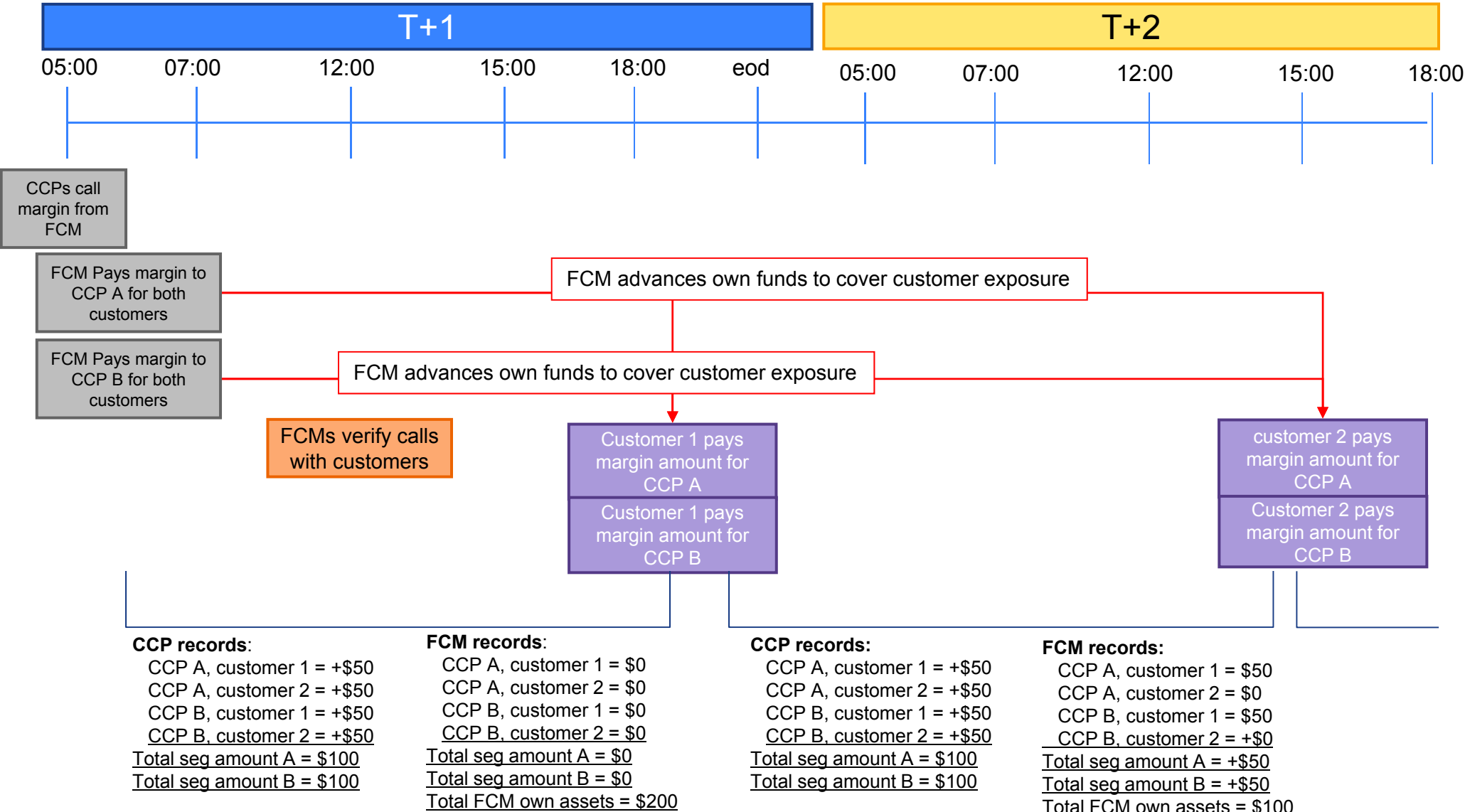
Note: This diagram shows the funding flows to the client following the CCP call on T+1. The first CCP margin funding run to the FCM is on an intraday trade date basis

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# Start of Day Processing Timelines – Possible Future State (1)

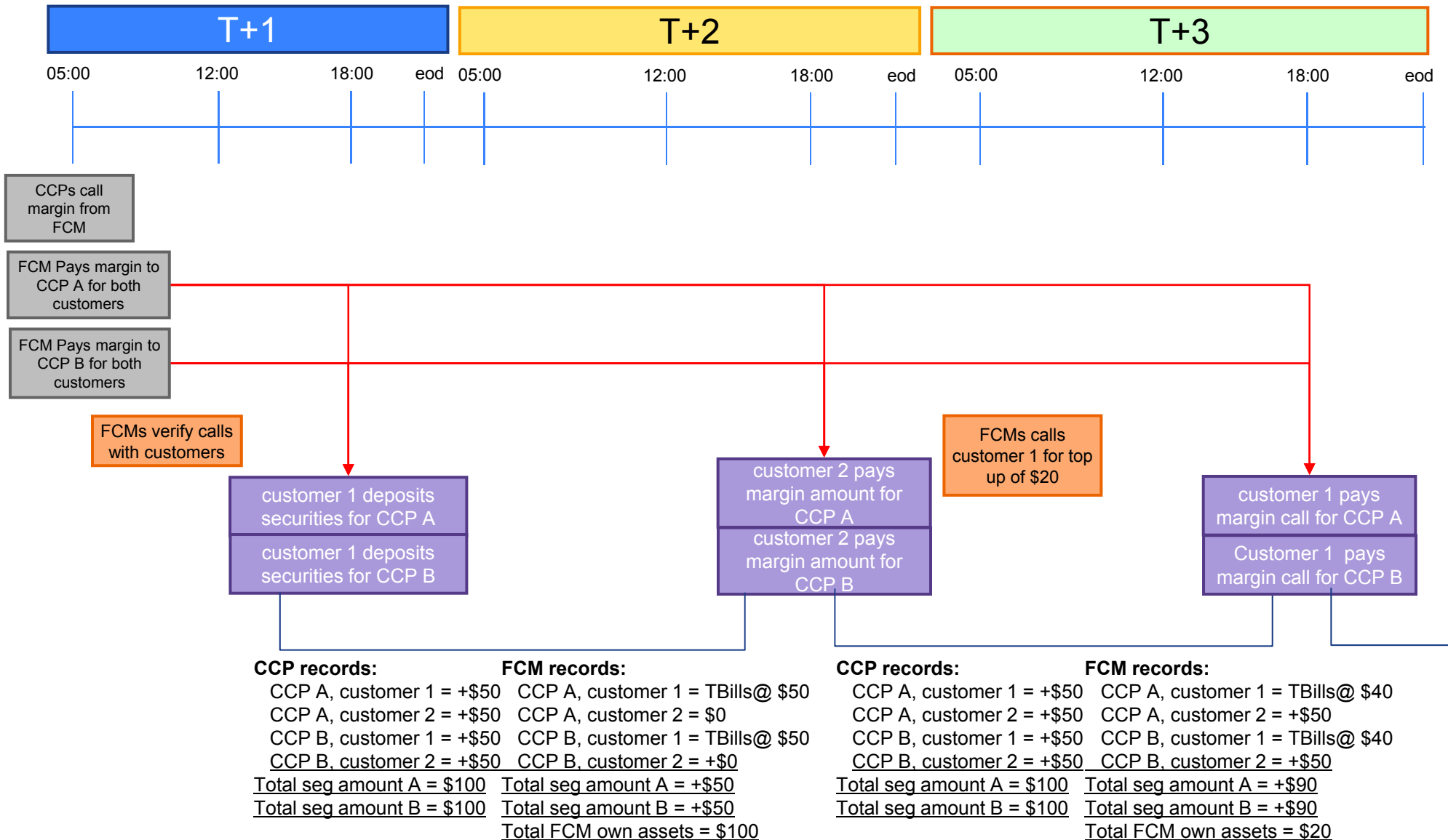
Scenario: Two customers, two CCPs, each call is \$50, customer 1 pays on T+1, customer 2 pays on T+2



Note: This diagram shows the funding flows to the client following the CCP call on T+1. The first CCP margin funding run to the FCM is on an intraday trade date basis  
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# Start of Day Processing Timelines – Possible Future State (2)

Scenario: Two customers, two CCPs, each call is \$50, customer 1 pays on T+1 and covers in securities, customer 2 pays on T+2 and covers in cash



Note: This diagram shows the funding flows to the client following the CCP call on T+1. The first CCP margin funding run to the FCM is on an intraday trade date basis  
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# Current Financial Safeguards

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- ◆ **Performance Bonds/Concentration Performance Bonds.** Performance bond requirements cover expected price moves of at least 95% to 99% over varying time-frames. Concentration performance bond requirements are imposed when a clearing firm's potential exposure becomes large relative to its financial resources.
- ◆ **Settlement Cycles.** Two full settlement cycles are performed daily, marking open positions to market, collecting and payment variation margin, and resetting performance bond coverage.
- ◆ **Capital Requirements.** Clearing members have significant minimum capital requirements (OTC derivatives clearing members' capital requirements are substantially higher). Institutional customers generally require clearing FCMs to maintain capital well in excess of the CFTC/SRO requirements.
  - The top 10 FCMs (ranked by adjusted net capital) have excess net capital ranging from slightly more than \$10 billion to slightly less than \$4 billion. The next ten have excess net capital ranging from slightly more than \$2 billion to slightly less than \$1 billion.
- ◆ **Stress Tests.** Daily stress tests are performed on clearing member positions on a portfolio basis and on the individual accounts of the clearing member's large traders; the clearing member may be required to increase performance bond requirements or reduce or transfer positions.
- ◆ **Reporting Requirements.** FCMs calculate daily their segregation requirements and capital and report those numbers to their DSRO as required.
- ◆ **Early Warning Requirements.** FCMs and clearing organizations are subject to certain early warning requirements.