



BNY Mellon Clearing

Derivatives Clearing Services



Brief Overview

The Cost of a Centrally Cleared OTC Derivatives Transaction

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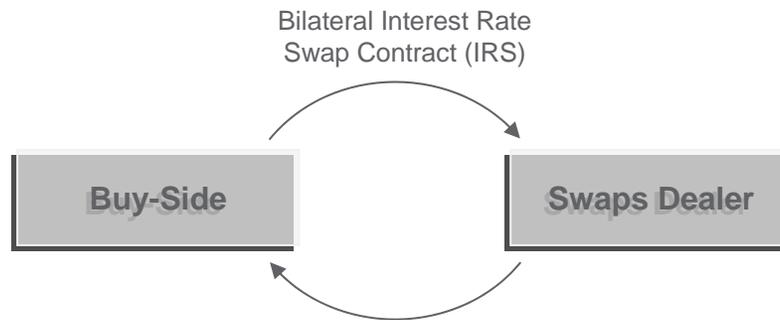
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Regulatory Reform Will Fundamentally Shift Risk in the Current Derivatives Market

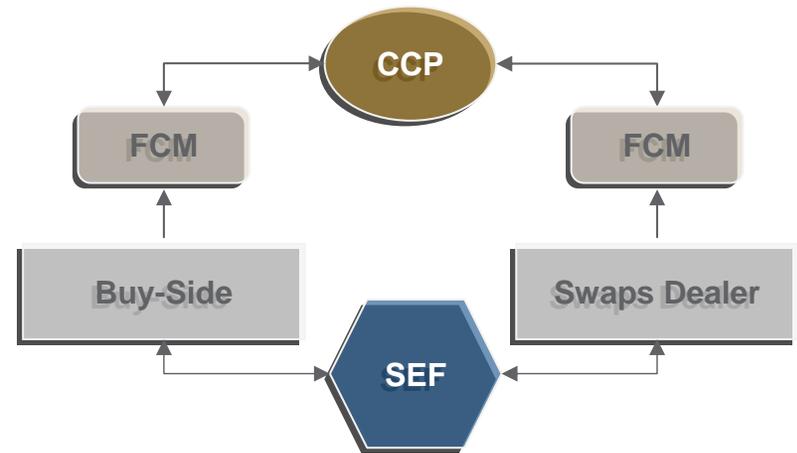
Illustrative

OTC (Current State)



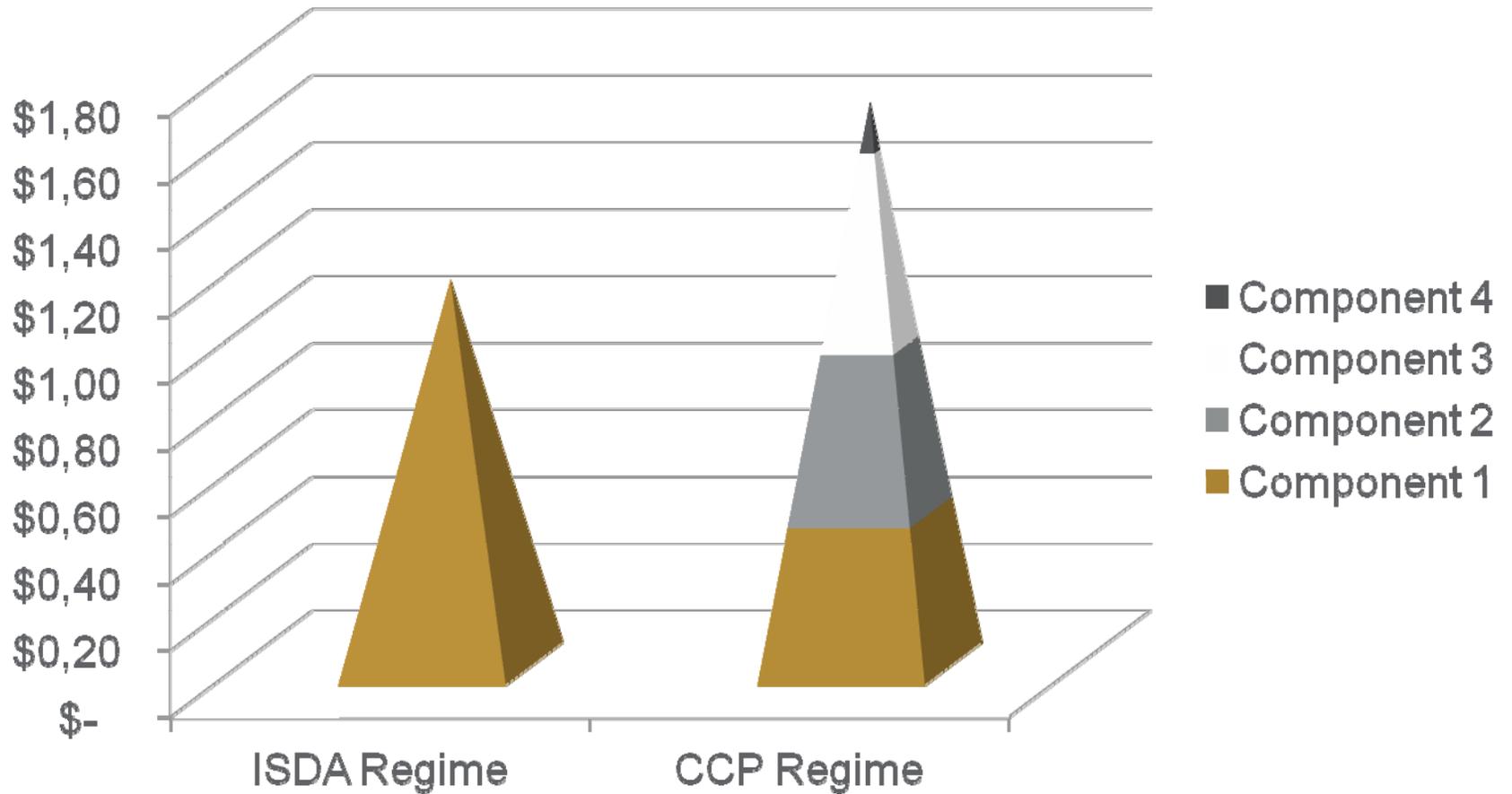
- Bi-Lateral risk that either counterparty will default on their obligation to deliver cash/securities
- Collateral is held by individual counterparties causing re-hypothecation risk or fear that collateral will not be returned
- Limited transparency into individual positions and overall systemic risk (e.g., who is trading with whom)
- Both parties manage and monitor market risk

COTC (Future State)



- CCP model eliminates credit risk with trading counterparty as CCP guarantees trade obligations for both sides.
- Collateral requirements are determined by the CCP and collateral posted with the CCP is held in segregated customer accounts
- Centralization of transactions create greater market transparency and reduces exposure to inter-dependencies
- Market risk still remains, however the CCPs calculates daily MTM of positions and collateral

Overall Cost Implications

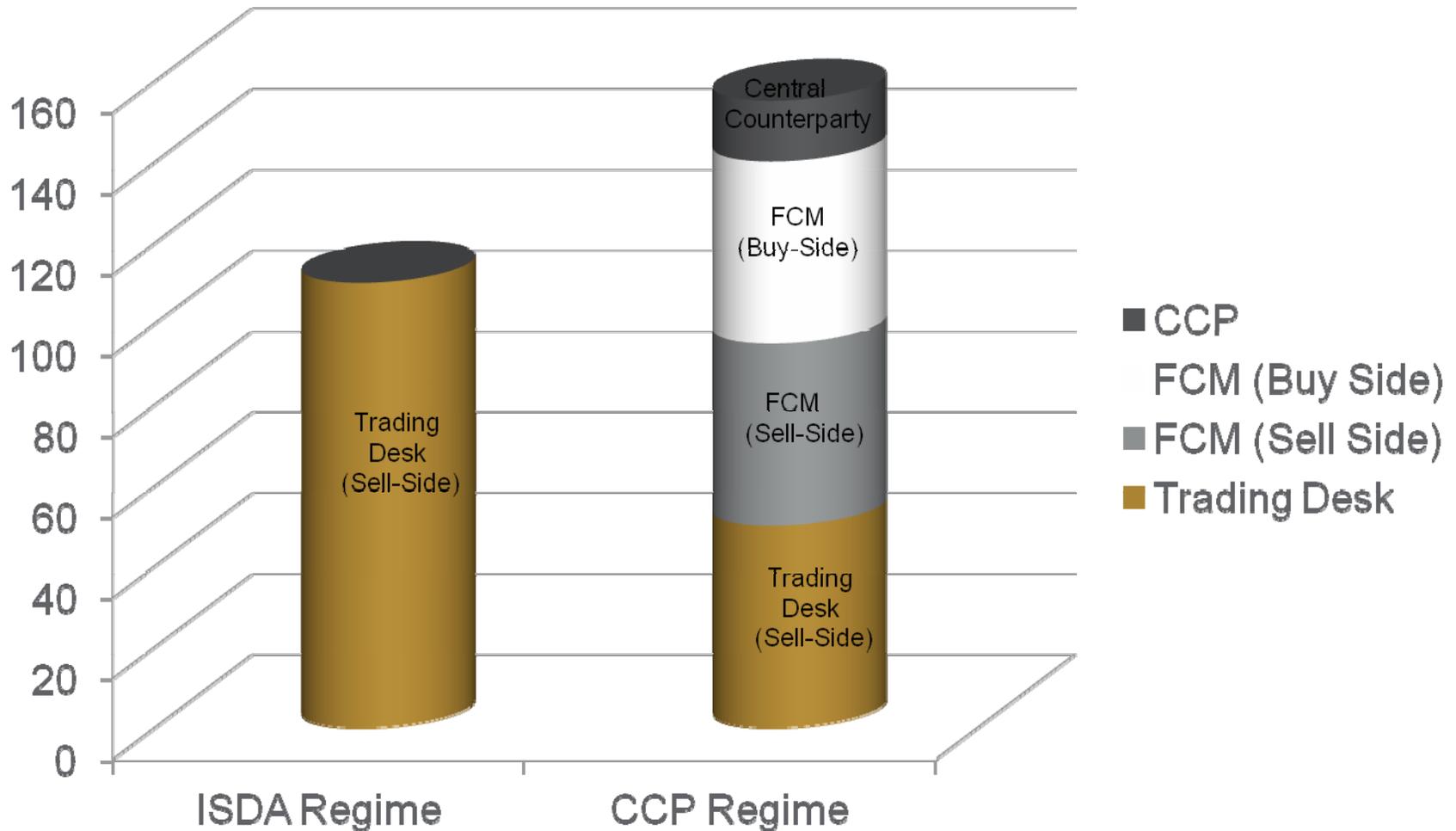


Various Pricing* Components Proposed

- **Transaction Based Fees**
 - > Ticket Fees: \$200 to \$1,000
- **Fixed Fees**
 - > Monthly Fee: \$0 to \$10,000
 - > Annual Minimum Fee: \$100,000
- **Variable Fees**
 - > Margin on Collateral: 10 bps to 20 bps
- **Other Fees**
 - > Collateral Transformation: TBD
 - > Intermediaries Cost of Capital: TBD

*Estimated based on our general knowledge of the marketplace.

How Much Will Clearing Cost?



Possible Impact – Longer Term

- Collateral decisioning moves ‘pre-trade’
- Demand for outsourcing increases dramatically
- Volume of transactions rises while average notional per-trade falls
- New price-makers emerge