Treasury and Repo Clearing

CME Group

Q1 2025

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Providing Capacity and Capital Efficiencies to the U.S. Treasury Marketplace

We will offer a number of benefits to market participants as they comply with SEC clearing requirements*

- **Flexibility.** Our Cash Treasury and Repo clearing service will support both “done with” and “done away” clearing, providing greater choice for clients and Members in managing their relationships.
- **Capital Efficiencies.** Expands upon the $20B in daily interest rate margin savings already being delivered across interest rate cash, repo, futures, options and swap products offered by CME Group.
- **Operational Efficiencies.** Flexible capital treatment facilitates the ability to utilize a smaller number of Members to clear cash and repo trades executed with a variety of counterparties.
- **Proven Track Record.** Building on 100+ years of experience clearing a variety of financial instruments, we bring operational excellence to the Cash Treasury and Repo space.
- **Central Clearing Best Practices.** Beyond current U.S. Treasury clearing best practices, we will provide several additional risk management benefits common at CME Clearing today.

**Pending Regulatory Review*

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Day One Product Scope

Cash Treasury Transactions

- U.S. Treasury securities (USTs) including U.S. Treasury bills, notes and bonds, including when-issued (WI)

Repo Transactions

- Repurchase (Repo) or reverse repurchase agreements collateralized by USTs (overnight, term ≦ 2 year, and tri-party)

- Settlement:
  - Securities submitted on T will be settled on a gross basis
  - Tri-party repo trades will settle net on T in line with existing market practices
  - T+N settlement will be netted by CUSIP

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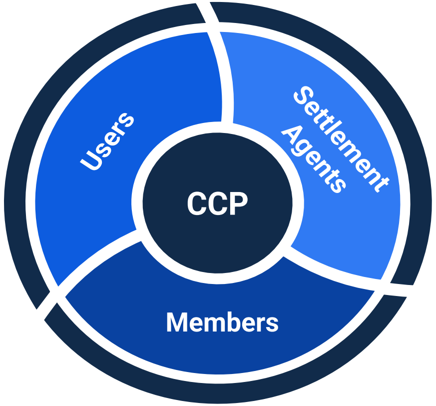
Clearing Structure

Through a new legal entity, CME Securities Clearing Inc. ("CMESC"), we will provide a central counterparty to Cash Treasury and Repo Transactions, guaranteeing financial performance while establishing and encouraging prudent risk management practices

<u>User Obligations</u>

- Requires Member guarantee and approval from CMESC to access clearing service
- Member is responsible for determining and enforcing minimum financial responsibility standards that apply to its Users
- **<u>Not</u>** involved in risk mutualization (i.e., no Guaranty Fund requirement)
- Obligation to settle trades directly with CMESC



<u>Settlement Agent Obligations</u>

- *Cash U.S. Treasury*: Settles trades between the CMESC and participants
- *Deliverable Repo*: Process receive vs payment (RVP) and delivery vs payment (DVP) instructions between CEMSC and participants
- *Tri-party Repo*: Provide custodial services, including trade settlement, collateral adjustments, and allocation of collateral

<u>Member Obligations</u>

- Must meet applicable financial, risk and operational standards
- Contributes to the Guaranty Fund and Capped Liquidity Facility for User and proprietary positions
- Has the right but not the obligation to assist the CMESC in managing a User default

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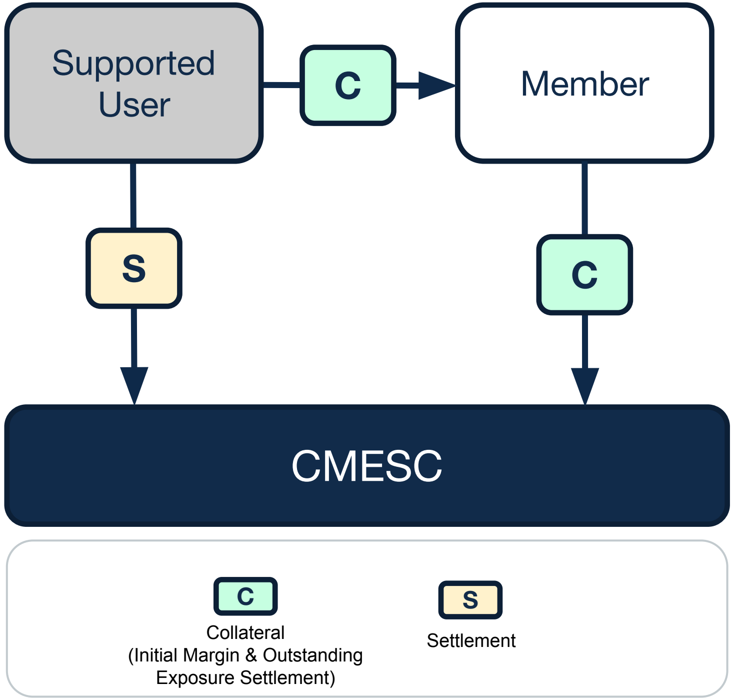
Supported User Access Model



- Balance sheet friendly treatment of trade facilitates clearing of "done away" activity
- CMESC collateral accounts and requirements will align with 15c3-3 requirements
- Multiple position and collateral accounts may be established for each Supported User
- Initial margin and Outstanding Exposure Settlement (e.g., settlement variation) each collected directly between a Member (on behalf of its Supported Users) and CMESC twice daily
  - Initial margin is collected on a gross basis and Outstanding Exposure Settlement is collected on a net basis
- CMESC model offers LSOC-like protections for all Users margin (i.e., Supported and Independent Users)

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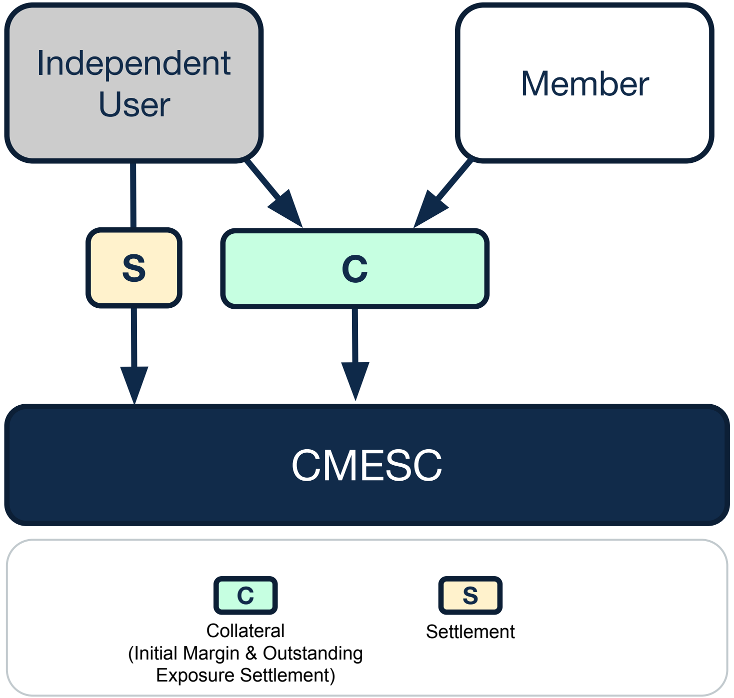
Independent User Access Model



- Additional User model included in CMESC's application which provides an additional degree of client protection
- Initial margin and Outstanding Exposure Settlement (e.g., settlement variation) each collected, on a gross basis, directly between an Independent User and CMESC twice daily
- Member has the option of funding the Independent User account
- Multiple position and collateral accounts are established for each Independent User
- CMESC model offers LSOC-like protections for all Users margin (i.e., Supported and Independent Users)

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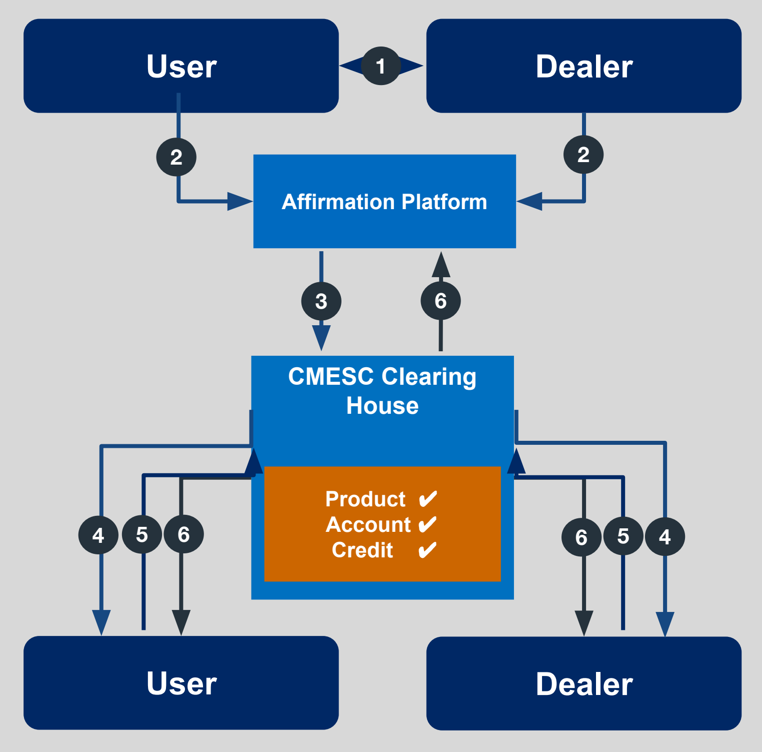
New Trade Workflow Example



1. User and Dealer execute trade
2. Trade is entered into Affirmation/Execution Platform
3. Affirmation Platform sends trade to CMESC for clearing
4. Upon CMESC validation, “Clearing Consent” notifications sent to User and Dealer
5. CMESC sends Clearing Confirmation to Members
6. CMESC sends “*Cleared*” notification to Affirmation Platform which displays trade status to principals

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Risk Management

Robust risk management structure

Daily Initial Margin and Outstanding Exposure Settlement (e.g., Settlement Variation)	• Cash and U.S. Treasury collateral for margin and cash for Outstanding Exposure Settlement (e.g., settlement variation) • Twice daily mark-to-market of collateral
Guaranty Fund and Financial Safeguards	• Prefunded Member and CME contributed capital, distinct from margin collateral • Stress testing regime, sizing the Guaranty Fund using extreme, but plausible stress test scenarios
Counterparty Credit Risk	• Financial and operational standards for both Users and Members
Risk Monitoring	• Risk management staff monitors market conditions and exposures of all counterparties in real-time • Trade level detail provided to Members throughout the day for risk management of Users they support
Liquidity Resources	• Size liquidity needs and ensure resources are sufficient to meet anticipated obligations and overall cash needs • Resources include a Capped Liquidity Facility where Members may be subject to a repo transaction pursuant to the CMESC Rulebook
Default Management	• Robust set of options to allow for efficient disposal of risk and close-out process • Regular testing with participants to ensure efficient communication in times of stress

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Contact Information

Please direct any questions or inquiries regarding this overview to:
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Disclaimer

This document provides an overview of CME Group's intention to launch CME Securities Clearing inc. (CMESC), a newly registered clearing house designed to provide clearing and settlement services for U.S. Treasury Securities and Repo Agreements. The contents of this document are subject to change at any time without prior notice. Any future launch of CMESC and the points discussed in this document are subject to regulatory review and to any necessary internal and external approvals.

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Clearing services for U.S. Treasuries will be provided through CMESC, which has applied for registration with the SEC as a clearing agency.

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