



IFEX Event Linked Futures

Block Trade Procedures

London, October 2009

Advantages of IFEX Block Trades

BLOCK TRADES ALLOW PARTICIPANTS TO CLEAR OTC IFEX DEALS

- § Block trading allow participants to give individually negotiated OTC *IFEX* transactions the advantages of cleared transactions
- § Cleared trades are secured by the *Clearing Corporation* which operates as the central counterparty to all *IFEX* transactions on the *Chicago Climate Futures Exchange*
- § *Because of the Clearing Corporation's margining system IFEX transactions are subject to minimal counterparty risk*

Block Trade Rules

RULES FOR IFEX BLOCK TRADES ARE SIMPLE

- § *IFEX Block Trades must be for a minimum of 25 contracts*
- § *The terms of the transaction are negotiated off exchange between the parties*
- § *Once agreed the deal has been agreed the transaction must be reported to the exchange within 15 minutes – see next slide for details*
- § *Once quoted on exchange, the transaction becomes subject to IFEX margin rules – see slides on margin below*
- § *Full rules for block trades are to be found in Chapter 412 of the Rulebook of the Chicago Climate Futures Exchange – see http://www.ccfex.com/membership_ccfe/CCFE_Rulebook.pdf*

IFEX Block Trade Procedures

CCFE PROCEDURES FOR IFEX BLOCK TRADES

§ Once details of a block trade have been agreed between the counterparties, full details of the transaction must be reported to the exchange by Billy Welch at the *Chicago Climate Futures Exchange*

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§ Details must include: (i) the number of contracts; (ii) the price; (iii) the year (eg Dec 2010); (iv) event (eg First Event); (v) Loss Trigger Level (eg \$20bn); (vi) the counterparties

§ Trades must be reported to the exchange within 15 minutes of completion of the negotiation during trading hours; and within 15 minutes of the start of trading if negotiations are completed outside trading hours

IFEX ELF Contracts – Margin (1)

- § *The Clearing Corporation* is the ultimate counterparty for all ELF contracts. Clearing and margining services are provided by the *Clearing Corporation (CCorp)*
- § Margin follows the pattern of futures markets with maintenance and variation margin payable by both protection buyers (longs) and protection sellers (shorts)
- § **Variation Margin** reflects the day-by-day mark to market value of the contract. If the price of a contract falls the buyer pays and the seller receives variation margin – and *vice versa*
- § The protection buyer pays the premium through the erosion of the value of the contract. If the price of a contract falls the buyer pays and the seller receives variation margin
- § The protection buyer pays (and the seller receives) the premium through the erosion of the value of the contract if there is no claim.
- § If a Loss Trigger Level is triggered (a claim made) variation margin will flow to the full value of the contract from the seller to the buyer

IFEX ELF Contracts – Margin (2)

- § **Maintenance Margin** is payable either by accumulated variation margin and/or by deposits of cash, high grade interest securities or Letters of Credit
- § Before and after the North Atlantic (and Eastern Pacific) hurricane season (June 1 – November 30) Maintenance Margin is \$200 per contract (2% of its notional value or 'limit') for buyers and \$800 for sellers
- § During the hurricane season Maintenance Margin increases to \$600 for the buyer and \$2,400 for the seller
- § If a hurricane or tropical storm poses a 'moderate' or 'severe' threat, margin increases as follows:
 - Moderate Threat: Buyer \$3,000 and Seller \$3,000
 - Severe Threat: Buyer \$8,000 and Seller \$2,000
- § Maintenance Margin requirements are assessed for 'moderate' and 'severe' threat on the \$10bn and \$20bn LTLs and the \$30bn, \$40bn and \$50bn LTLs separately.

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Climate Exchange PLC Group of Companies

- § **Climate Exchange Plc** is a holding company whose subsidiaries are principally engaged in owning, operating and developing exchanges to facilitate trading in environmental financial instruments including emissions reduction credits in both voluntary and mandatory markets. The two main businesses are the **Chicago Climate Exchange (CCX)** which operates a voluntary but legally binding cap and trade system including an exchange for CO2 emissions as well as SOx and NOx contracts in the US and internationally, and the **European Climate Exchange (ECX)** which operates an exchange focussed on compliance certificates for the mandatory European Emissions Trading Scheme. <http://climateexchange.com>
- § **CCX** is a financial institution whose objectives are to apply financial innovation and incentives to advance social, environmental and economic goals. **CCX** is the world's first and North America's only legally binding rules-based greenhouse gas emissions allowance trading system, as well as the world's only global system for emissions trading based on all six greenhouse gases. **CCX** members are leaders in greenhouse gas management and represent all sectors of the global economy, as well as public sector innovators. Reductions achieved through **CCX** are the only reductions in North America being achieved through a legally binding compliance regime, providing independent third party verification provided by NASD and price transparency. The founder, Chairman and CEO of **CCX** is economist and financial innovator Dr. Richard L. Sandor, who was named a Hero of the Planet by Time magazine for his founding of **CCX**. For a full list of **CCX** members, daily prices and other Exchange information, see <http://www.chicagoclimateexchange.com>.
- § **CCX**, a US corporation, launched its trading platform in 2003. In 2005, **CCX** launched the **European Climate Exchange (ECX)**, now the leading exchange operating in the European Union Emissions Trading Scheme. **CCX** also launched the **Chicago Climate Futures Exchange (CCFE)**, a CFTC-regulated futures exchange for U.S. SO2 allowances and U.S. NOx Ozone Season allowances, the world's first environmental derivatives exchange. Since 2006, **CCX**, **ECX** and **CCFE** have been owned by **Climate Exchange Plc**, a publicly traded company listed on the AIM of the London Stock Exchange.
- § **The European Climate Exchange (ECX)** manages product development and marketing of Carbon Financial Instruments (CFI) futures and options contracts on CO2 EU allowances traded under the EU Emissions Trading Scheme.
- § **ECX** CFI contracts are listed and traded on the ICE Futures electronic platform, offering a central marketplace for emissions trading in Europe with standard contracts and clearing guarantees provided by LCH.Clearnet. **ECX** / ICE Futures is the most liquid, pan-European Exchange for carbon emissions trading. More than 80 leading global businesses have signed up for membership to trade **ECX** products. In addition, several hundred clients can access the market via banks and brokers.





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