



IFEX Event Linked Futures

Security for Insurers and Reinsurers

London, October 2009



Multi-layered Security

TRADERS IN ELF_s ON CCFE ENJOY ROBUST SECURITY

- § IFEX Event Linked Futures are traded as margined futures contracts on the *Chicago Climate Futures Exchange*, a US regulated futures exchange and cleared by *The Clearing Corporation (CCorp)*, a US regulated clearing house
- § *CCorp's risk management system is time tested*
- § *Futures Commission Merchants provide risk management and customer segregation protection*
- § The security system is multi-layered, flexible and exceptionally robust

Security Drives From Variation Margin

THE ROLE OF VARIATION MARGIN

- § IFEX Event Linked Futures on the CCFE are marked to market *twice* daily
- § Variation margin flows day-by-day with price movements and the holders of long ELF contracts receive funds on increases in contract value
- § *The mark-to-market process is designed to limit the protection buyer's risk to one day or two days price movement*

Security Drives From Maintenance Margin

THE ROLE OF MAINTENANCE MARGIN

- § Maintenance Margin is required according to pre-set limits and is in addition to Variation margin flows
- § Maintenance Margin has the characteristic of a performance bond and is intended to cover the historic daily variation in price
- § During the North Atlantic hurricane season Maintenance Margin will increase with the threat that insured losses from tropical storms in the covered territories could reach and exceed Loss Trigger Levels
- § *Maintenance Margin is designed to collateralise one or two day's Variation Margin*

Futures Commission Merchants are Counterparties to Customers

CUSTOMER COUNTERPARTIES

- § *The counterparty to every transaction is the broker (Futures Commission Merchant) (FCM) as agent to principal*
- § *CCFE's clearing member FCMs include some of the most substantial financial organisations in the world:*

**ADM Investor Services Inc.
Banc of America Securities, Inc.
Barclay's Capital Inc.
Credit Suisse Securities (USA) LLC
Deutsche Bank Securities Inc.
Fortis Clearing Americas LLC
Goldman Sachs & Co.
JP Morgan Futures Inc.
Merrill Lynch, Pierce, Fenner & Smith, Inc.
MF Global
Mizuho Securities USA Inc.
Newedge Financial Inc.
Prudential Bache Commodities LLC
UBS Securities LLC**

Customer and Futures Commission Merchant

RELATIONSHIP BETWEEN CUSTOMER AND CLEARING MEMBER

- § *It is for the customer to select a Futures Commission Merchant (FCM)(broker) who is, or has a relationship with, a clearing member FCM of the requisite financial standing*
- § *Equally FCMs check the credit worthiness of their customers. If a customer defaults the FCM meets the customer's obligations*
- § *Account segregation is mandatory and is included in the Clearing Agreement with its clearing member*
- § *Many clearing members have credit ratings equal to or better than high grade reinsurance security*

The Role of the Clearing House

THE CLEARING CORPORATION

- § In all cleared transactions, the central counterparty to the clearing member is
The Clearing Corporation (CCorp)
- § *CCorp* applies margin on a net basis to clearing members to collateralise their obligations to *CCorp*
- § *CCorp* also requires clearing members to contribute to a guarantee fund to further ensure that they can meet their obligations to *CCorp*
- § The role of *CCorp's* margin requirements and other risk management systems is to protect clearing participants from a default of any clearing member

Summary

SECURITY OFFERED BY CCFE CONTRACTS: SUMMARY

Customers are protected directly by:

§ The security offered by the customer's Futures Commission Merchant(s)

...and indirectly by:

§ Maintenance Margin

§ The system of twice daily payments of Variation Margin

§ The guarantee fund of *The Clearing Corporation*

The security offered by IFEX ELF contracts is equivalent to that of very high grade reinsurance security

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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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