



# Brazilian Mercantile & Futures Exchange - BM&F



## Central Counterparties

November, 2007

## **SUMMARY**

**Definition of central counterparty**

**Netting**

**Mitigation of counterparty risk**

**Risk management**

**Final considerations**

## DEFINITION

- **Buyer to all sellers and seller to all buyers**

## **NETTING**

**Greater efficiency in post-trading processes**

- **Reduction of operational risks**
- **Reduction of liquidity needs**

**Requirements**

## MITIGATION OF COUNTERPARTY RISK

**Promotes better price formation**

- **Allows for the adoption of anonymous offers**
- **Permits greater participation by smaller-sized institutions**

**Requirements**

## **RISK MANAGEMENT**

### **Principal risk:**

- **DVP**

### **Market risk:**

- **Collateral**

### **Liquidity risk:**

- **Proprietary funds**
- **Credit facilities and**
- **Quantitative limits**

## **RISK MANAGEMENT - Continuation**

### **Operational risk:**

- **Contingency systems**

### **Legal risk:**

- **Recognition of netted result**
- **Conditions for default treatment procedures to be implemented by the Clearinghouse**
- **Clear and precise rules in Clearinghouse regulations**



## **CONTACT**

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