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
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