Lifecycle of a Cleared OTC Derivative Trade

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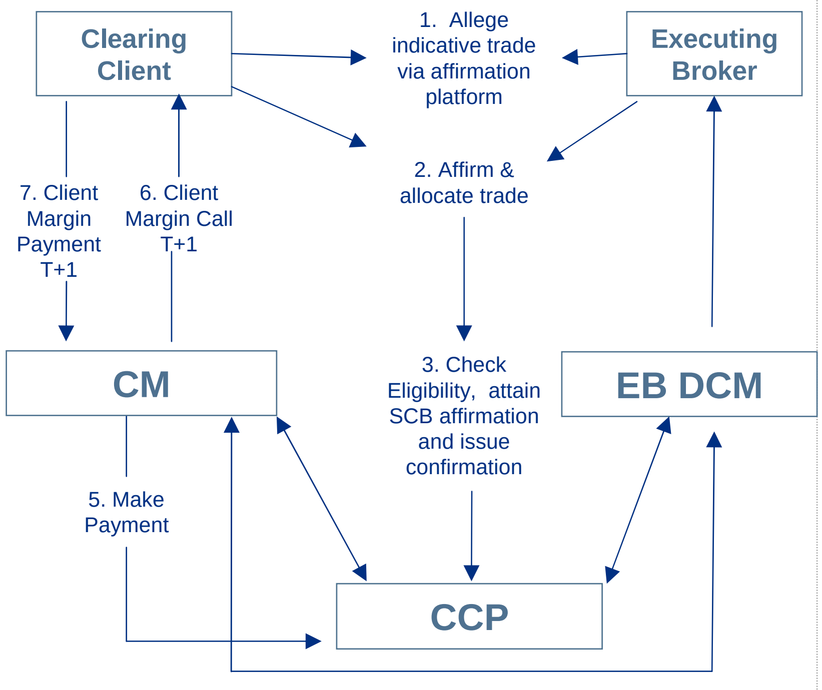
November 2011

Trade Life Cycle: Two Trade Flow Types

Currently, two trade flows have emerged for cleared OTC transactions.

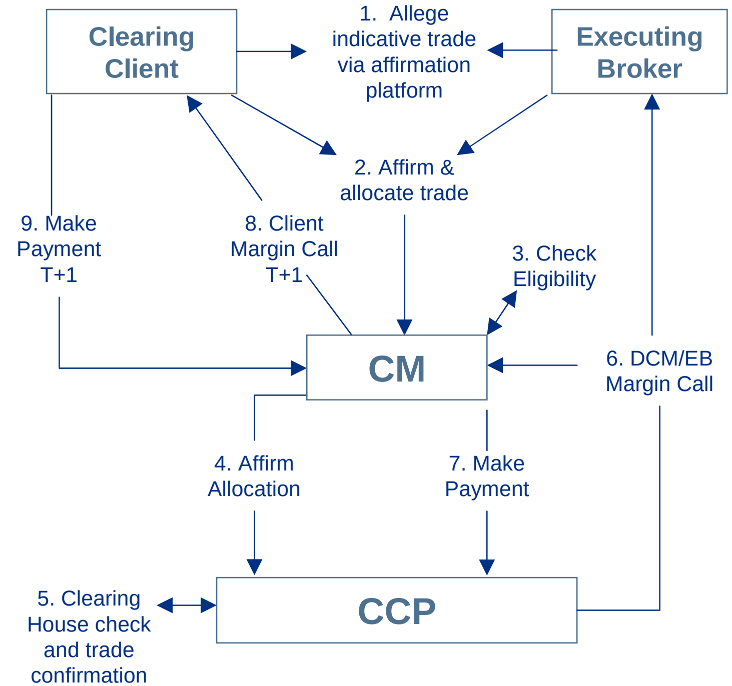
Steps in Trade Flow

Model 1 (Agent)



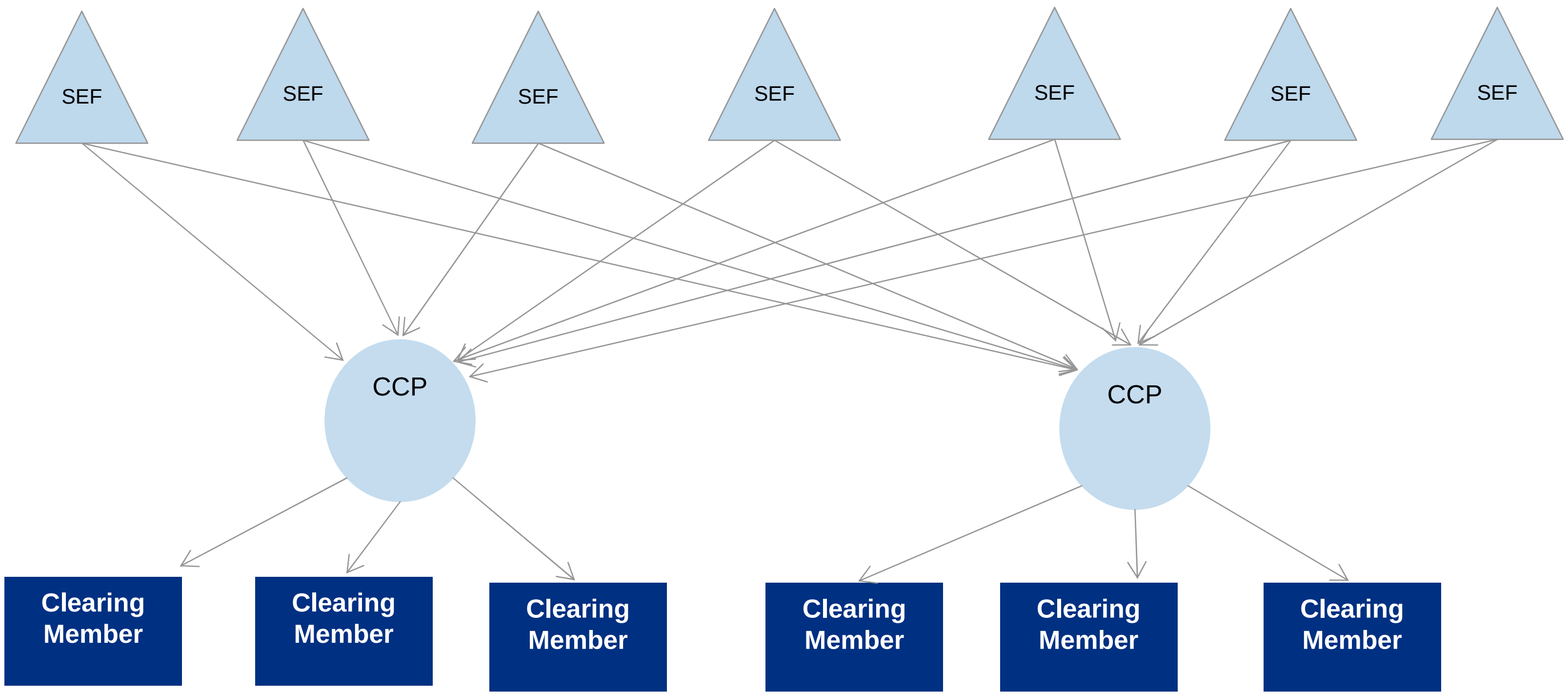
- Futures-Style
- Clearing member ensures trade eligibility & accuracy & facilitates margin

Model 2 (Principal)



- ISDA/OTC-Style
- Clearing member ensures trade eligibility & accuracy & facilitates margin

Market structure: New challenges due to proposed regulations



- Unlike Futures, OTC regulations require open access--multiple execution venues (SEFs and exchanges) to multiple clearing houses to multiple clearing members
- Possible fragmentation of liquidity
- Due to operational latency, difficulty providing certainty of clearing/execution
- Limits can be enforced at different nodes (eg CCP, SEF, or CM), and the industry is working on optimal market structure design (ISDA/FIA)

In January 2007, Citi released a Climate Change Position Statement, the first US financial institution to do so. As a sustainability leader in the financial sector, Citi has taken concrete steps to address this important issue of climate change by: (a) targeting $50 billion over 10 years to address global climate change: includes significant increases in investment and financing of alternative energy, clean technology, and other carbon-emission reduction activities; (b) committing to reduce GHG emissions of all Citi owned and leased properties around the world by 10% by 2011; (c) purchasing more than 52,000 MWh of green (carbon neutral) power for our operations in 2006; (d) creating Sustainable Development Investments (SDI) that makes private equity investments in renewable energy and clean technologies; (e) providing lending and investing services to clients for renewable energy development and projects; (f) producing equity research related to climate issues that helps to inform investors on risks and opportunities associated with the issue; and (g) engaging with a broad range of stakeholders on the issue of climate change to help advance understanding and solutions.

Citi works with its clients in greenhouse gas intensive industries to evaluate emerging risks from climate change and, where appropriate, to mitigate those risks.