Lifecycle of a Cleared OTC Derivative Trade

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## Trade Life Cycle: Two Trade Flow Types

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

### Model 1 (Agent)
- **Clearing Client**
  - 7. Client Margin Payment T+1
  - 6. Client Margin Call T+1
- **Executing Broker**
  - 1. Allege indicative trade via affirmation platform
  - 2. Affirm & allocate trade
  - 3. Check Eligibility, attain SCB affirmation and issue confirmation
  - 4. DCM Margin Call
- **CM**
- **EB DCM**
- **CCP**

### Model 2 (Principal)
- **Clearing Client**
  - 1. Allege indicative trade via affirmation platform
  - 2. Affirm & allocate trade
  - 3. Check Eligibility
  - 4. Affirm Allocation
  - 5. Clearing House check and trade confirmation
  - 6. DCM/EB Margin Call
- **CM**
- **EB**
- **DCM**
- **CCP**

### Steps in Trade Flow
- **Futures-Style**
  - Clearing member ensures trade eligibility & accuracy & facilitates margin
- **ISDA/OTC-Style**
  - Clearing member ensures trade eligibility & accuracy & facilitates margin
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).
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