

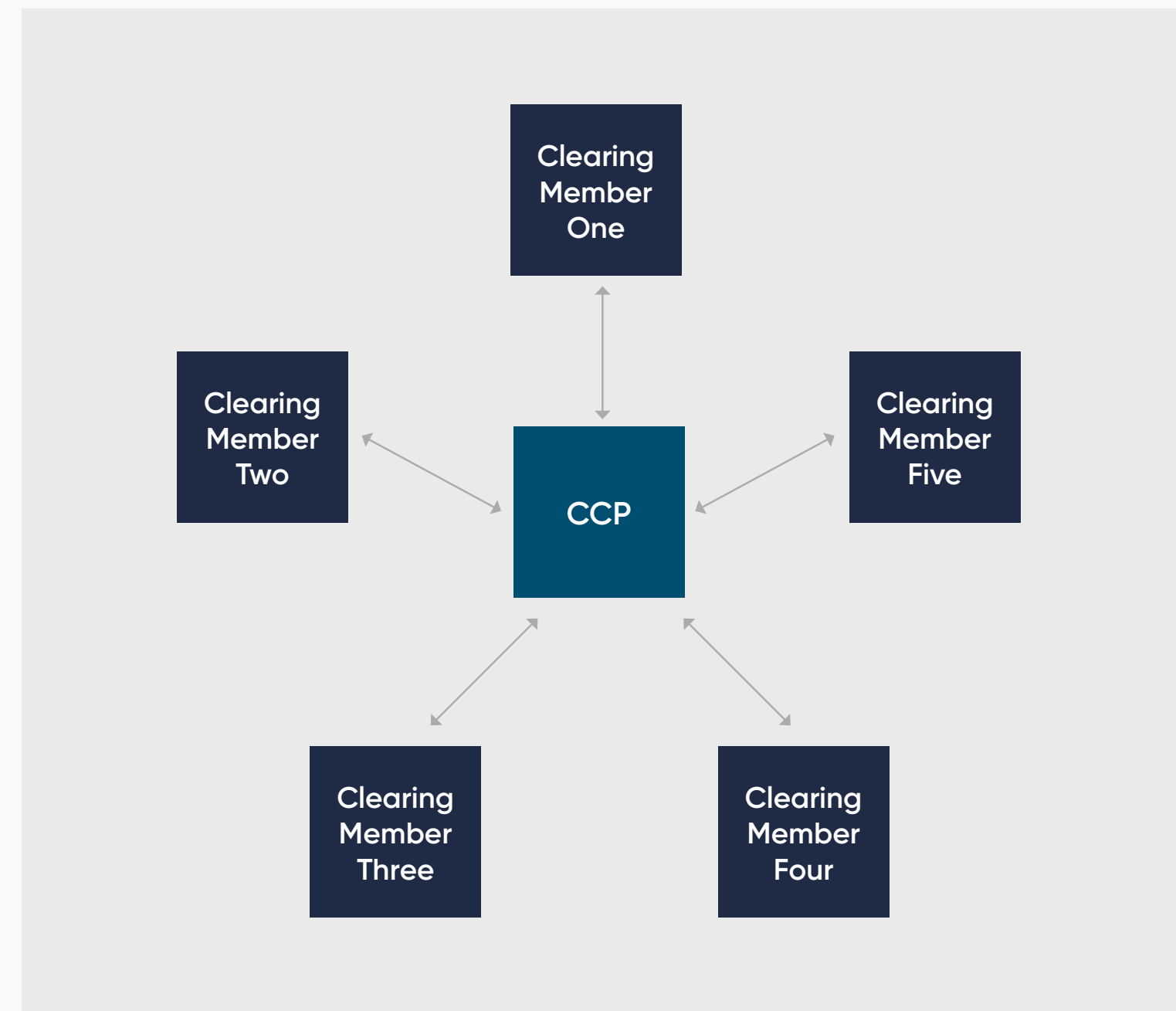
# Primer: How CCPs Support Financial Stability

CCPs provide risk mitigation through counterparty substitution, becoming the buyer to every seller and the seller to every buyer, guaranteeing each transaction pursuant to the CCP's rules. CCPs may also engage in multilateral netting, thereby reducing counterparty credit risk, collateral requirements and liquidity needs for market participants.

To manage the risk of a default, CCPs monitor their members against established membership standards, collect margin from each member, maintain default funds to cover potential exposure, establish default management procedures and may draw on additional pre-funded resources to assist default management.

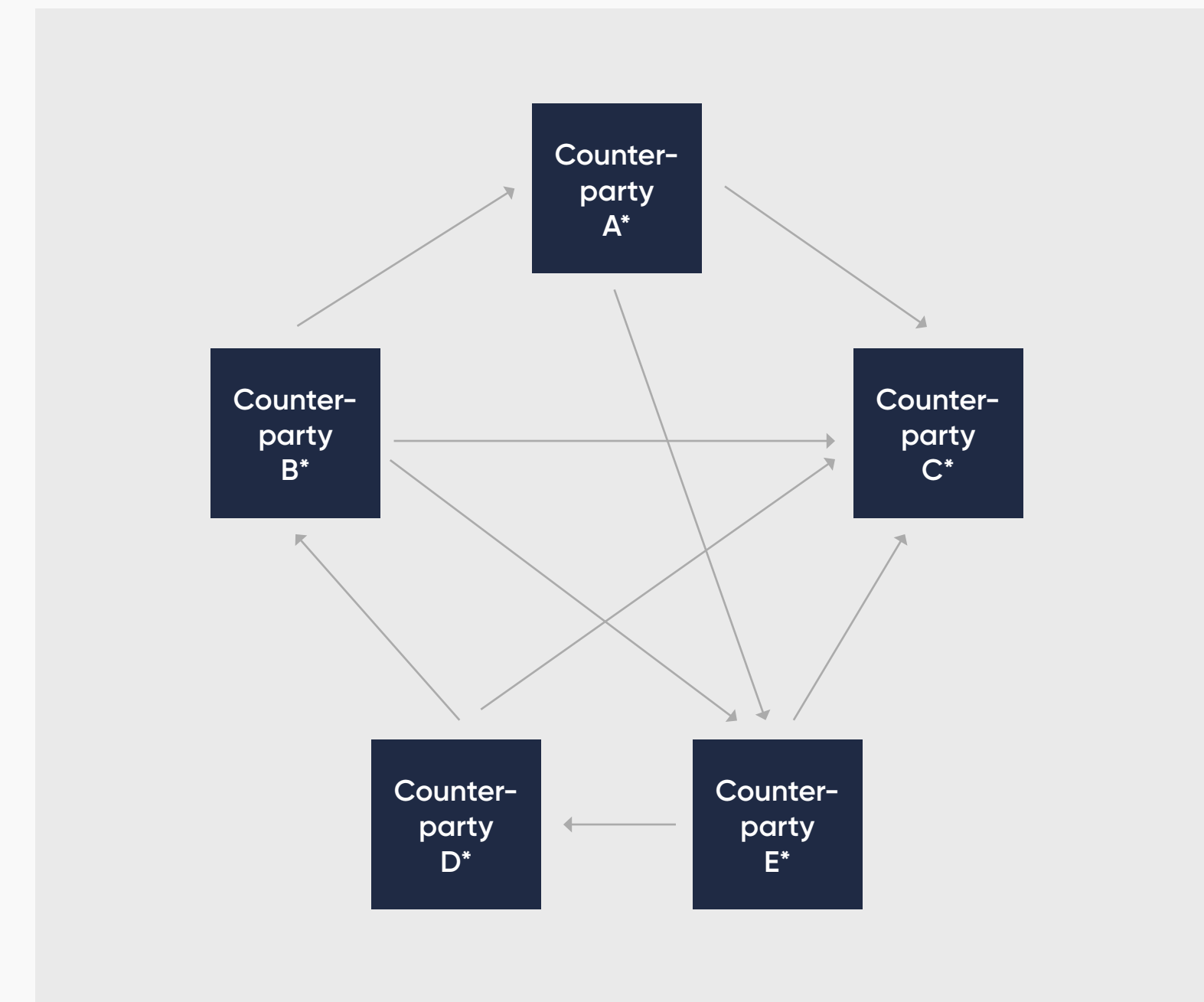
Finally, CCPs have recovery and wind-down plans in the unlikely event of liquidity shortfalls and/or significant losses that could threaten the CCP's viability.

## Centrally Cleared Markets



- CCPs stand between every buyer and seller, reducing counterparty risk
- Reduced interconnectedness among counterparties, increased transparency and reduced risk exposure
- Membership, clearance and settlement, and risk management are governed by consistent rules of a self-regulatory organization

## Bilateral Markets



- No central counterparty to manage risk and limited transparency into the counterparty's potential risk
- High interconnectedness among counterparties lowers visibility and heightens risk exposure
- Relationship typically governed by bespoke contract