

LCH

ForexClear

Clearing non-deliverable FX options

Unlock efficiencies and streamline FX workflow

Global demand for cleared deliverable and non-deliverable OTC FX derivatives is rising, as market participants seek effective ways to reduce their margin and capital costs across their entire FX portfolio. To meet this growing need, LCH ForexClear, LCH's FX clearing service, has partnered with the market to deliver clearing for non-deliverable options (NDOs) across nine currency pairs.

The addition of clearing for NDOs complements ForexClear's current non-deliverable forwards (NDFs), FX options¹ and FX forwards¹ product offering, creating new opportunities for margin, capital and operational efficiencies. Subsequently, access to a wider set of in-scope FX products for Uncleared Margin Rules (UMR) enables participants to more effectively manage their initial margin (IM) requirements. Clearing NDOs also significantly increases opportunities for portfolio netting benefits with NDFs that are already cleared at LCH, allowing for lower margin, capital and operational costs.

¹ Deliverable service is available to clearing members only

Key benefits

1

Margin efficiencies

FX options are in scope for two-way IM exchange under UMR; clearing may offer savings of up to 85%² in IM costs versus bilateral requirements.

² LCH analysis

2

Capital savings

The standardised calculation for risk weighted assets (RWA) permits a lower 2% counterparty risk weighting against a CCP, compared to a minimum of 20% against a AAA-rated entity, leading to lower capital costs for cleared NDOs versus bilateral FX options.

3

Reduced operational complexity

Clearing NDOs helps reduce operational complexity compared to bilateral FX options, due to the lack of physical settlement (NDOs cash-settle via PPS) and cumbersome exercise/expiry processes.

The LCH ForexClear NDO offering

NDO clearing is available to LCH ForexClear clearing members and buy-side clients (via a clearing broker) in four emerging market (EM) currency pairs, **BRL, KRW, INR, TWD**, and five G10 pairs, **AUD, EUR, GBP, JPY, CHF**, with a maximum tenor of two years.



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Non-Deliverable service		Deliverable service
Non-deliverable forwards Non-deliverable options	Products	Vanilla FX options FX forwards FX spots
Members and clients	Participants	Members
NDF: 15 EM and 10 G10 pairs NDO: four EM and five G10 pairs Two years maturity	Eligibility	Eight G10 pairs Two years maturity
PPS	Final settlement	PvP via LCH CLS CCP

NDO margin savings

Clearing NDOs at LCH ForexClear can result in significant margin savings across most portfolios compared with bilateral IM requirements calculated by ISDA SIMM, as the examples below highlight.

Type	Profile	Bilateral margin (% notional)	LCH cleared margin (% notional)	Margin saving ² (%)
Hypothetical	Long call (1 mo. ATM)	4.6%	0.69%	85%
	Short call (1 mo. ATM)	4.6%	1.9%	59%
	Hedged call (1 mo. ATM)	0.9%	0.2%	73%
	Long straddle	1.8%	0.5%	73%
	Long strangle	0.6%	0.1%	77%

² LCH analysis



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