Execution Arrangement Comparison

• Futures Execution: Executing Broker Representation on Anonymous Markets

• Bilateral (Non-Exchange) Cleared Derivatives Execution: Anonymity between Clearing Member and Executing Counterparty

• Trilateral Cleared Derivatives Execution: Clearing Member Sets Execution Limits for Each Executing Counterparty

• Derivatives Prime Brokerage Execution: Derivatives Prime Broker Sets Execution Limits for Each Executing Counterparty (No Anonymity) and acts as principal intermediary to trade (not as clearing member)
Futures Execution: Executing Broker Representation on Anonymous Markets

* Futures “Give-Up” Arrangement: representation of Alpha by Executing Broker to Anonymous Market. XYZ Executing Broker is acting on behalf of Alpha Fund as Alpha’s agent. XYZ EB takes Alpha’s order to the Exchange and can execute the trade with anyone in the market to secure best price. XYZ FCM does not know identity of trade counterparties.
Bilateral (Non-Exchange) Cleared Derivatives Execution: Anonymity between Clearing Member and Executing Counterparty

* Here Dealer X is acting as principal and is on the opposite side of Alpha Fund’s trade. It is not acting as a “broker” for Alpha Fund; rather it is facing Alpha Fund at arm’s length and is acting in its own interest. If the trade does not clear (e.g. because either Alpha Fund or Dealer X has exceeded an overall limit imposed by the clearinghouse or imposed by the relevant clearing member), one party may be exposed to credit risk of the other if breakage is owed, so the parties may choose to perform their own credit checks if they have reason to believe that breakage could be material.
Trilateral Cleared Derivatives Execution: Clearing Member Sets Execution Limits for Each Executing Counterparty (No Anonymity)

1. **Bid**
   - **Trade execution**
     - **Trade executed directly off-exchange**
     - **Routing of trade and identity of executing counterparty to Clearing Member for verification if within allocated limit**
     - **Submitted for clearing**
   - **Resulting cleared trade**

2. **Resulting cleared trade**
   - **Clearinghouse**
     - **Routing of trade and identity of executing counterparty to Clearing Member for verification if within allocated limit**
     - **Commitment by Clearing Member to clear if trade confirmed to be within allocated limit**

3. **Clearing Member – Dealer X affiliate**
4. **Clearing Member**
5. **XYZ Clearing Member**

**Trilateral Agreement includes Clearing Member – allocates execution limit to Executing Counterparty; commitment by Clearing Member to clear if trade confirmed to be within allocated limit**
Derivatives Prime Brokerage Execution:
Derivatives Prime Broker Sets Execution Limits for Each Executing Counterparty (No Anonymity) and acts as principal intermediary to trade (not as clearing member)

Routing of agent trade to Derivatives Prime Broker to match terms for back-to-back prime brokered trades.

Give-Up Agreement and Dealer Authorization Notice allocates execution limit to Executing Counterparty; commitment by Derivatives Prime Broker to accept if trade confirmed to be within allocated limit; if accepted, then back-to-back trades result with the Derivatives Prime Broker having direct credit risk to both Alpha Fund and Executing Counterparty.

Compensation Agreement provides for fallbacks in the event the trade is not accepted for intermediation by the Derivatives Prime Broker.