

The Clifton Group recognizes that current volatility in the markets is a source of great concern for many of our clients. As such, we provide the following information.

When trading exchange listed futures and options, there are several risk mitigating practices. Positions are marked to market on a daily basis. Initial and variation margin is posted as required. Also, investors face the clearing house as a counterparty. The clearing house matches opposite sides of transactions between a large number of clearing member firms. In the event of a failure of one member, positions can be assigned to other members, or closed in an open market transaction. Any potential loss on market transaction is offset by the margin deposit held by the clearing house in segregated funds. This arrangement can help insulate trades from risks that may emerge from a default of a single clearing member firm. Additionally, incremental safeguards exist including security deposits, posted performance bonds, and pledges of exchange membership shares by the Futures Commission Merchants (FCMs).

For more information regarding the financial safeguards in place at option and futures exchanges, please see:

<http://www.cmegroup.com/clearing/cme-clearing-overview/index.html>

<http://www.cboe.com/AAA>

https://www.theice.com/clear_us.jhtml

With regard to the Lehman Brothers bankruptcy filing, the CME issued the following statement:

“CME Group's clearing member, Lehman Brothers Inc., is a subsidiary of Lehman Brothers Holdings Inc., but is a separate company with its own accounts, assets and customers. These accounts, assets and customers are protected through a comprehensive federal statutory and regulatory regime and other financial safeguards and risk management protections provided by CME Clearing. All customer funds are required to be segregated from firm assets, held in specially identified accounts and are not subject to any creditors' claims against the firm.”

The CBOE and ICE exchanges also issued statements regarding Lehman stating that the broker-dealer subsidiaries have not filed for bankruptcy and continue to operate. [1]

Please contact us at 800-328-5009 or send an e-mail to info@thecliftongroup.com with any questions or additional information needs.

[1] <http://ir.theice.com/releasedetail.cfm?ReleaseID=334528>

<http://www.optionsclearing.com/market/infomemos/2008/sep/24842.pdf>