



*The Depository Trust &  
Clearing Corporation*



NOT FOR RELEASE, PUBLICATION OR DISTRIBUTION IN WHOLE OR IN PART,  
IN OR FROM ANY JURISDICTION WHERE TO DO SO WOULD CONSTITUTE A  
VIOLATION OF THE RELEVANT LAWS OF ANY SUCH JURISDICTION

*22 October 2008*

## **DTCC AND LCH.CLEARNET ANNOUNCE PLANS TO MERGE AND CREATE WORLD'S LEADING CLEARING HOUSE**

The Depository Trust & Clearing Corporation (DTCC) and LCH.Clearnet Group (LCH.Clearnet) today jointly announce that they have signed non-binding heads of terms regarding the proposed merger of the two companies. The merger proposal aims to create the world's leading clearing house, which would operate a user-owned, user-governed model, with LCH.Clearnet moving to an at-cost based structure comparable to DTCC's within three years. As a result of the transaction, LCH.Clearnet shareholders would receive total consideration of up to €739 million (€10 a share), the majority of which would be funded through LCH.Clearnet's revenue.

Euroclear, currently the largest shareholder in LCH.Clearnet, with a holding of 15.8%, intends to support the transaction in principle and remain a shareholder of LCH.Clearnet HoldCo, and to thereby cement a strong partnership in European post-trade solutions.

It is anticipated that the proposed merger will result in significant synergies and efficiency gains, largely derived from technology savings, as well as significantly enhanced economies of scale. In addition, for the first time both the U.S. and Europe would be supported by a common infrastructure. As a result, we expect further reductions in the costs of LCH.Clearnet's and DTCC's services, most notably for equities in both Europe and America.

The combined group would focus on maximising value to users whilst ensuring the highest standards of risk management. Its clearing and depository infrastructure would be underpinned by a significant breadth of financial expertise, proven risk management capabilities, volume capacity and market-leading technology solutions.

The range of markets and services covered would be broad and diverse and would include such asset classes as equities, fixed income instruments, exchange-traded derivatives and commodities, mutual funds, annuities and OTC products such as interest rate swaps, credit default swaps, carbon emissions and freight contracts. Clients served globally would include several thousand broker/dealers, banks, institutional investors, hedge funds, trust companies, mutual funds and insurance carriers and other third parties who market financial products.

## User Benefits

The management of both parties believe that users would benefit from:

- A global at-cost, user-owned, user-governed clearance and settlement infrastructure, dedicated to serving the needs of its users and which, once the cost of operations have been covered, would return excess revenue to users in the form of rebates, discounts or tariff reductions.
- Significant anticipated cost savings deriving from: IT synergies; enhanced economies of scale; integrated and efficient collateral management and other operational efficiencies. Initial indications suggest that synergies would amount to approximately 7 - 8% of the combined group's operating costs.\*

\*These cost saving estimates are based on internal analysis by the parties and are subject to completion of due diligence and confirmation from independent third parties.

- A transatlantic clearing house of significant financial strength, offering the robustness in processing capacity and operational capabilities required to underpin today's financial markets.
- Sophisticated risk management capabilities, the resilience of which has been proven in both companies during the current financial markets crisis.
- Access to default funds and potentially increased cross-margining, which maximise the efficacy of members' capital contributions and provide a safeguard in volatile market conditions.
- The leveraging of financial services expertise across the group in order to develop innovative, market-leading clearing and settlement solutions for established and emerging asset classes, in partnership with market participants.

## Merger Terms

The non-binding heads of terms include the following main provisions:

- DTCC will acquire 100% of the ordinary shares in LCH.Clearnet. The transaction will result in LCH.Clearnet shareholders receiving total consideration of up to €10 a share. The consideration will comprise: DTCC voting shares; shares in the vehicle acquiring LCH.Clearnet, which carry rights to receive LCH.Clearnet future profits available for distribution for up to three years; and a pre-closing special dividend from LCH.Clearnet. On the basis of €10 a share, the approximate implied equity value of LCH.Clearnet would be €739m.

Assuming no changes in share count, the total number of new DTCC voting shares issued to LCH.Clearnet shareholders will be 12,186, representing 34% of DTCC's enlarged share capital.

The terms of the definitive agreement remain subject to completion of satisfactory due diligence.

- The combined group will follow DTCC's existing practice of regular mandatory rebalancing of its shareholder base to ensure that share ownership is in line with usage. Consequently, within 12 to 18 months of the completion of the merger, it is intended that there will be a rebalancing among the former LCH.Clearnet shareholders to bring ownership fully into line with usage.
- Former LCH.Clearnet shareholders will have substantial representation on the board of LCH.Clearnet HoldCo and Roger Liddell will be the CEO of the new LCH.Clearnet HoldCo and Donald F. Donahue will be the chairman. LCH.Clearnet will also benefit from having significant representation on the board of DTCC, including management representation.
- Following the payment of all the deferred consideration to shareholders, which is expected within three years, LCH.Clearnet HoldCo intends to move to an at-cost based service delivery model on a basis consistent with that currently operated by DTCC.
- With effect from the completion of the merger, all of the newly combined group's European business will be brought under common management to provide the most economic and effective service to users. Following resolution of certain key commercial, legal, tax and regulatory issues, it is intended that DTCC's existing European subsidiary, EuroCCP, will join with the new LCH.Clearnet HoldCo to form a single European clearing business.

### **Euroclear support**

Euroclear, which is LCH.Clearnet's largest shareholder with a holding of 15.8%, has agreed to support the merger in principle, subject to final terms and conditions. Immediately after the completion of the proposed transaction, it is expected that Euroclear will acquire a similar proportion of shares in the new LCH.Clearnet HoldCo. This investment will help cement a strong partnership between the two organisations, allowing Euroclear and LCH.Clearnet to maximise service advantages and efficiency opportunities for users.

### **Timing**

LCH.Clearnet and DTCC shall continue negotiating on the basis of the non-binding heads of terms. LCH.Clearnet and DTCC anticipate being in a position to sign definitive documentation and announce the detailed terms of the transaction by 15 March 2009. The signing of binding transaction documentation is subject to a number of conditions including; consultation with the Works Council in the French subsidiary of LCH.Clearnet, the approval of shareholders, including receipt of binding commitments to support the transaction from certain LCH.Clearnet shareholders, the approval of relevant regulators and certain tax authorities and the completion of satisfactory mutual due diligence.

Commenting on the proposal, A. Chris Tupker, Chairman of LCH.Clearnet said:

“The critical role and value of clearing houses has been highlighted by recent events. The merger of our companies will enable our users to benefit from a broader geographic footprint and a greater range of expertise as well as realising important efficiencies and economies of scale.”

“For our shareholders, the merger would offer the opportunity of receiving a substantial consideration. Furthermore, it would enable both the European and U.S. financial communities to benefit from the services of a user-owned, user-governed, at-cost model across a broader range of markets and asset classes.”

Donald F. Donahue, Chairman and Chief Executive Officer of DTCC added:

“By combining DTCC and LCH.Clearnet’s natural synergies and complementary skills, we expect our customers will not only see significant cost savings in the clearance and settlement of the many securities and instruments we already service, but also greater access to a more diverse range of product offerings and support of emerging asset classes. A good example is the potential to leverage the expertise between Swapclear’s support of interest rate derivatives and Deriv/SERV’s capabilities in credit default swaps.”

“We are also very excited to gain the expertise and shared commitment to serving customers that is so evident among LCH.Clearnet employees. DTCC has grown over the past decade through the combination of multiple clearing corporations and depositories. Our success, as an organization, is tied to our ability to work, collaborate and partner with others in the industry, never losing sight of our larger goal to reduce risk and costs for our users.”

### **Information on LCH.Clearnet**

LCH.Clearnet is the leading independent central counterparty group (CCP) in Europe, serving major international exchanges and platforms, as well as a range of OTC markets. It clears a broad range of asset classes including: securities, exchange traded derivatives, energy, freight, interbank interest rate swaps and euro and sterling denominated bonds and repos; and works closely with market participants and exchanges to identify and develop clearing services for new asset classes.

As a CCP, LCH.Clearnet sits in the middle of a trade, assuming the counterparty risk involved when two parties (or members) trade. When the trade is registered with LCH.Clearnet, it becomes the legal counterparty to the trade, ensuring the financial performance; if one of the parties fails, LCH.Clearnet steps in. By assuming the counterparty risk, LCH.Clearnet underpins many important financial markets, facilitating trading and increasing confidence within the market.

Initial and variation margin (or collateral) is collected from LCH.Clearnet members; should they fail, this margin is used to fulfil their obligations. The amount of margin is decided by LCH.Clearnet’s highly experienced risk management teams, who assess a member’s positions and market risk on a daily basis. Both the soundness of the risk management approach and the resilience of its systems have been proven in recent times.

LCH.Clearnet is regulated or overseen by the national securities regulator and/or central bank in each jurisdiction from which it operates.

## Information on DTCC

The Depository Trust & Clearing Corporation is the largest clearing house in the United States and provides through its subsidiaries, clearance, settlement and information services for equities, corporate and municipal bonds, government and mortgage-backed securities, money market instruments and over-the-counter derivatives. In addition, DTCC is a leading processor of mutual fund and annuity transactions, linking funds and carriers with financial firms and third parties who market these products. Last year, DTCC settled more than \$1.86 quadrillion in securities transactions. DTCC's depository provides custody and asset servicing for more than 3.5 million securities issues from the United States and 110 other countries and territories, valued at \$40 trillion.

DTCC's European subsidiary, EuroCCP, was formed in 2007 to provide clearing and settlement services for a wide range of multilateral trading facilities across Europe. It currently supports the Turquoise trading platform in clearing and settling equity trades in 14 countries and in seven different currencies. EuroCCP has also been selected to clear and settle for the block trading platform SmartPool, owned by NYSE Euronext, HSBC, BNP Paribas and JPMorgan Chase, and the high frequency trading platform NYSE Arca Europe (a.k.a. Octopus). Both are expected to be launched before year-end 2008.

### For further information or enquiries:

Stuart Z. Goldstein, DTCC  
+1 646 427 7628 or +44 (0)20 7282 2803  
[sgoldstein@dtcc.com](mailto:sgoldstein@dtcc.com)

Andrea Schlaepfer, LCH.Clearnet  
+44 20 7426 7463  
[Andrea.Schlaepfer@lchclearnet.com](mailto:Andrea.Schlaepfer@lchclearnet.com)

Patrick Donovan, Citigate  
+44 (0)20 7282 2915  
[Patrick.donovan@citigatedr.co.uk](mailto:Patrick.donovan@citigatedr.co.uk)

More information is also available on the DTCC Web site at [www.dtcc.com](http://www.dtcc.com) and LCH.Clearnet Web site at [www.lchclearnet.com](http://www.lchclearnet.com). Photos and bios of Donald F. Donahue, A. Chris Tupker and Roger Liddell are available on request.

*Merrill Lynch International, which is authorised and regulated in the United Kingdom by the Financial Services Authority, is acting exclusively for LCH.Clearnet in connection with the proposed merger of LCH.Clearnet and DTCC (the "Transaction") and for no one else in connection with the Transaction and will not be responsible to anyone other than LCH.Clearnet for providing the protections afforded to clients of Merrill Lynch International nor for giving advice in relation to the Transaction or any matter or arrangement referred to in this announcement.*

*Goldman Sachs & Co is advising DTCC in connection with the Transaction.*

*This announcement is not intended to, and does not, constitute or form part of any offer, invitation or the solicitation of an offer to purchase, otherwise acquire, subscribe for, sell or otherwise dispose of, any securities whether pursuant to this announcement or otherwise. The offer will be made solely by the offer documentation, when issued, which will contain the full terms and conditions of the offer, including details of how the offer may be accepted.*

*This announcement is for distribution in the United Kingdom only to (i) person who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order"), or (ii) persons falling within Article 49(2)(A) to (D) (High Net Worth Entities) of the Order or (iii) persons who are intermediate customers under Chapter 4 of the Conduct of Business Rules of the UK Financial Services Authority (all such persons together being referred to as "relevant persons"). This announcement is directed only at relevant persons and other persons should not act or rely on this announcement or any of its contents.*

*The distribution of this announcement and the availability of the offer outside the United Kingdom may be restricted by law and therefore persons into whose possession this announcement comes should inform themselves about, and observe, any such restrictions. Any failure to comply with the restrictions may constitute a violation of the securities law of any such jurisdiction.*

*This announcement may contain "forward-looking statements" concerning DTCC and LCH.Clearnet.. Generally, the words "will", "may", "should", "continue", "believes", "expects", "intends", "anticipates", "expected", "projected", "estimated" or similar expressions identify forward-looking statements. The forward-looking statements involve risks and uncertainties that could significantly affect expected results and are based on certain key assumptions. Many factors could cause actual results to differ materially from those suggested by them. Many of these risks and uncertainties relate to factors that are beyond the companies' abilities to control or estimate precisely, such as future market conditions and the behaviours of other market participants, and therefore undue reliance should not be placed on such statements which speak only as at the date of this announcement. DTCC and LCH.Clearnet assume no obligation and do not intend to update the forward-looking statements contained in this announcement, except as required pursuant to applicable law.*

###