

## Press Release

### **\$9 trillion Lehman OTC interest rate swap default successfully resolved**

**LCH.Clearnet's SwapClear service manages first default in conjunction with  
OTCDerivNet**

(London, 8 October 2008) LCH.Clearnet, a leading independent central counterparty and OTCDerivnet, the interest rate derivatives forum of major market dealers, have successfully wound down, in an orderly and timely fashion, the Lehman Brothers Special Financing Inc OTC interest rate swap positions. The total notional value of the portfolio was \$9 trillion, encompassing a total of 66,390 trades across 5 major currencies.

This was achieved through the risk neutralisation and competitive auctioning of the Lehman OTC interest rate swap portfolio among the SwapClear members. LCH.Clearnet's SwapClear offering clears circa 50% of the global interbank OTC interest rate swaps market and the default management process, designed in collaboration with OTCDerivNet, requires the active participation of member firms in the hedging of the portfolios and their subsequent auction.

The management of the default involved;

- At default (Monday, 15 September 2008) the default management group (member firms form part of this group on a rotating basis) seconded preassigned and experienced traders to work alongside LCH.Clearnet's risk management team to apply hedges and neutralise the macro level market risk on the defaulter portfolio. All participants adhered to strict confidentiality rules throughout the process.
- The risk positions were reviewed daily and further hedges were executed in response to changing market conditions.
- From Wednesday, 24 September to Friday, 3 October, the competitive auctions of the five hedge currency portfolios were successfully completed.

The default was managed well within Lehman margin held and LCH.Clearnet will not be using the default fund in the management of the Lehman default. The overall success of the process was due to the strong commitment and working relationship between the SwapClear members and LCH.Clearnet. SwapClear members' dedicated resources from across multiple areas, including front office, risk and operations worked closely alongside LCH.Clearnet.

Roger Liddell, Chief Executive, LCH.Clearnet said: "The successful management of the default illustrates just how effective an industry led solution can be. Our members' active participation enabled us to leverage their expertise in the interests of market order and integrity. They have been integral to the success of SwapClear

since its launch in 1999 and their contribution to the default management process has been invaluable.”

Stephen O'Connor, Managing Director at Morgan Stanley, and Chairman of OTCDerivnet said: “The aim of the default management process is to manage the closeout of a member institution in an orderly fashion, with the minimum of disruption to the markets and without incurring credit losses at LCH.Clearnet or at other member firms. LCH.Clearnet and the bank members of the default management group executed on a well tested plan in volatile markets and achieved these goals with distinction.”

----- ends -----

**Contact:**

Andrea Schlaepfer/ Rachael Harper, LCH.Clearnet                      020 7426 7463 / 7175

Trang Nguyen Kilgore, OTCDerivNet Ltd.                                      020 7547 7636

**Editors Notes**

**About LCH.Clearnet**

LCH.Clearnet is a leading global independent central counterparty (CCP). It is the global leader in OTC interest rate swap clearing; its SwapClear service clears circa 50% of the global interbank OTC interest rate swap market. In addition, LCH.Clearnet serves major international exchanges and platforms, equity, exchange-traded derivatives, energy, interbank interest rate swaps markets and the majority of the Euro-denominated and sterling bond and repo markets.

**About OTCDerivnet**

OTCDerivNet is a company owned by a group of the world's leading banks in the over the counter (“OTC”) fixed income derivatives market. OTCDerivNet mission is to support a secure, efficient and cost-effective post-trade dated environment for the mutual benefit of the (OTC) derivatives industry in a way which serves to mitigate operational, credit and settlement risks, whilst reducing support costs and regulatory capital requirements.

[www.otcderivnet.com](http://www.otcderivnet.com)