LCH.CLEARNET

LCH.Clearnet launches buy-side clearing for global OTC Interest Rate Swaps

For the first time USD 146 trillion of additional notional value potentially clearable

17 December 2009

LCH.Clearnet Limited (LCH.Clearnet), the largest clearer of OTC products globally, today announced that its interest rate swaps clearing service for the buy-side has gone live. For the first time, institutional investors are able to access central clearing for OTC interest rate swaps via SwapClear, the only global clearing service for OTC interest rate swaps. This launch brings greater efficiency and security to the global market.

Developed in close collaboration with significant buy-side market participants and dealers, the SwapClear Client Clearing Service has been designed to offer a unique level of security to buy-side clients in the case of a bank default through margin segregation and portability of contracts. Subject to FSA's regulatory approval of this clearing service in the relevant jurisdictions, the list of dealers committed to offering the service will be: Banca IMI, Barclays Capital, BNP Paribas, BofA Merrill Lynch, Calyon, Citi, Credit Suisse, Deutsche Bank, Goldman Sachs, HSBC, J.P. Morgan, Morgan Stanley, Nomura, Royal Bank of Scotland, Société Générale and UBS.

Roger Liddell, Chief Executive of LCH.Clearnet said; “We are seeing an ever increasing focus on removing systemic risk from the OTC markets. We are pleased to have been able to deliver such rapid progress since we first announced our plans to launch the service in May. The extension of LCH.Clearnet’s established SwapClear service, which counts amongst its members 23 of the world’s leading banks, means that for the first time buy-side trading clients now have access to the benefits of interest rate swap clearing, a unique and proven default management process, reduced counterparty risk, portability, margin segregation and improved operational efficiencies.”

The extension of this proven service to customers of banks reflects a key pillar of the market changes being contemplated by regulators and legislators worldwide.

The OTC interest rate swaps market has by far the largest notional amount outstanding of any OTC derivative asset class, dwarfing CDS and FX derivatives. The most recent semi-annual survey of the Bank of International Settlements* indicated a notional amount outstanding of OTC interest rate swaps of USD 341 trillion. According to the same survey, the buy-side community currently accounts for interest rate swaps with an outstanding notional value of USD 208 trillion, none of which has previously been able to be centrally cleared. It is estimated USD 146 trillion of this could now potentially be eligible for protection within SwapClear**.

LCH.Clearnet is both a Commodity Futures Trading Commission (CFTC) registered Derivatives Clearing Organization (DCO) and a Financial Services Authority (FSA) Recognised Clearing House.

---- ends ----

Notes to editors

*Source: BIS Semi-Annual Report, June 2009

** Source: LCH.Clearnet estimates

Contacts

LCH.Clearnet –	Andrea Schlaepfer	Tel: +44 20 7426 7463 Cell: +44 7958 706 694
	Rachael Harper	Tel: +44 20 7426 7175 Cell: +44 7789 878 568
Financial Dynamics (US media) –	Erik Hendrickson Andrew Walton	Tel: +1 212 850 5725 Tel: +44 20 7269 7204

About SwapClear

SwapClear is the only clearing service for OTC interest rate swaps and it offers a global solution. Since 1999, SwapClear has improved the market structure for interest rates by providing the clearing framework within which major global swaps dealers have reduced both risk and processing costs. It currently clears approximately 70% of the global interbank interest rate swap market with a notional value of USD208 trillion and approximately 90% of all new inter-dealer swap activity. The range of products cleared has been extended to include overnight index swaps of up to two years in four currencies and interest rate swaps in tenors of up to 30 years in up to 14 currencies.

The resilience of SwapClear's default management process was demonstrated in September 2008 when it successfully handled Lehman Brothers' USD9 trillion interest rate swap default. The highly effective default management process ensured that over 60,000 trades were hedged and auctioned off to other clearing members in a timely fashion and that the default was managed well within the margin held and with no recourse to the default fund.

About LCH.Clearnet

LCH.Clearnet is the leading independent clearing house group, 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.

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

Initial and variation margin (or collateral) is collected from clearing members; should they fail, this margin is used to fulfill their obligations. The amount of margin is decided by the clearing house'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.