

Press Release

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LCH.Clearnet adopts OIS discounting for \$218 trillion IRS portfolio

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LCH.Clearnet Ltd (LCH.Clearnet), which operates the world's leading interest rate swap (IRS) clearing service, SwapClear, is to begin using the overnight index swap (OIS) rate curves to discount its \$218 trillion IRS portfolio.

Previously, in line with market practice, the portfolio was discounted using LIBOR. However, an increasing proportion of trades are now priced using OIS discounting. After extensive consultation with market participants, LCH.Clearnet has decided to move to OIS to ensure the most accurate valuation of its portfolio for risk management purposes. LCH.Clearnet already uses OIS rates to price the rate of return on cash collateral.

From 29 June 2010, USD, Euro and GBP trades in SwapClear will be revalued using OIS.

Roger Liddell, chief executive, LCH.Clearnet said: "Accurate pricing is essential for prudent risk management. With the market moving increasingly to OIS, it was important for us to consider the implications of this. Our move to OIS discounting demonstrates our commitment to the highest standards of risk management and the sophistication of our SwapClear service."

SwapClear, the only truly global clearing service for IRS, offers innovative solutions to meet the growing demands of the OTC markets. In December 2009, LCH.Clearnet was the first clearing house to launch interest rate swap clearing for the buy-side clients through SwapClear, offering a unique level of security to clients in the case of a bank default through margin segregation and portability of contracts.

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.

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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.

About the LME

- The LME is the world's premier non-ferrous metals market and achieved volumes of almost 93 million lots in 2007, an increase of 7% on 2006 figures and equivalent to \$9,500 billion in monetary terms.
- Trading at the LME in non-ferrous metals, steel and plastics takes place across three platforms: through open-outcry trading on the "Ring"; through an inter-office telephone market and through LME Select.