



# Interoperability

# Current Interoperability

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## LCH.Clearnet leads the way in interoperable agreements

- LCH.Clearnet Limited – SIX X-Clear AG
  - SIX Swiss Exchange SMI securities - May 2003
  - London Stock Exchange Main Market – December 2008
  - SIX Swiss Exchange Small & Mid Caps – September 2009
- LCH.Clearnet Limited – NASDAQ OMX
  - EDX London – November 2003
- LCH.Clearnet SA – Cassa di Compensazione e Garanzia S.P.A.
  - MTS – December 2002
  - BrokerTec – November 2005

All interoperable agreements are consistent with the LCH.Clearnet Group Risk Management Policy: Inter CCP Risk Management

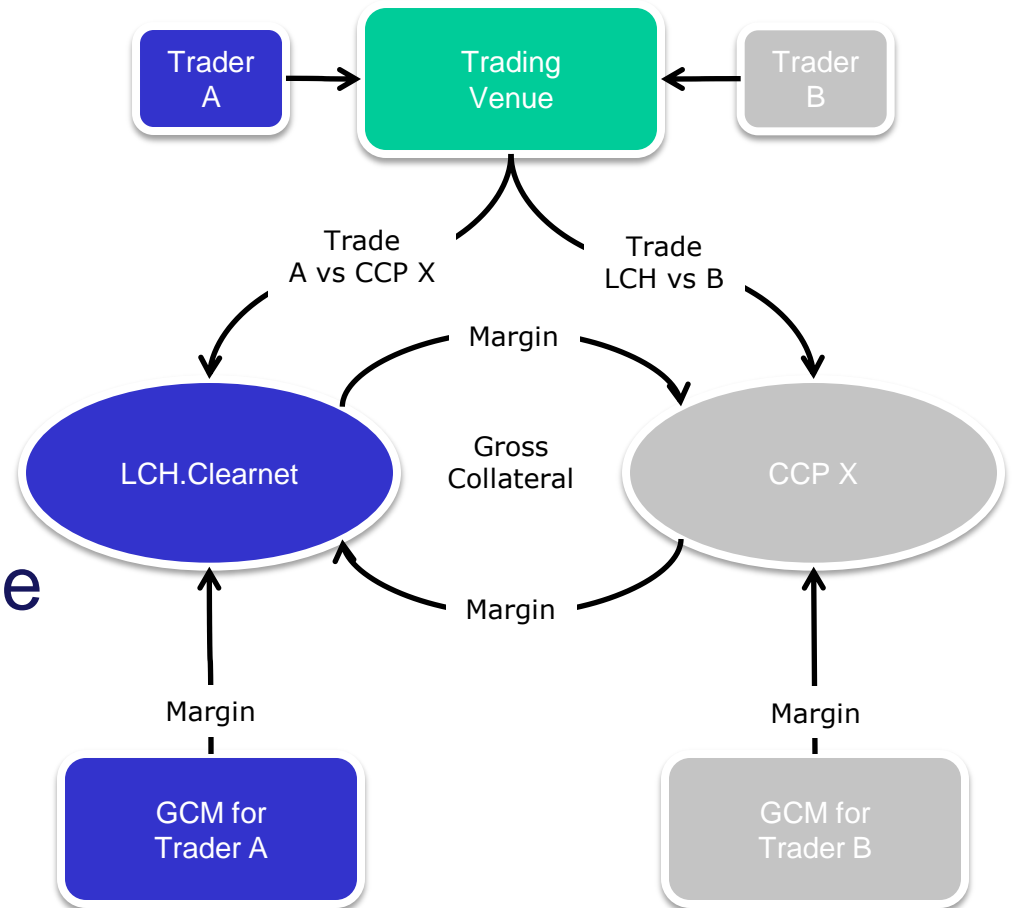
# MCLA Overview

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- Regulators have sight of each Master Clearing Link Agreement.
- MCLAs are not limited to specific venues or securities.
  - Venue and security specific schedules may be added to the MCLAs at the request of trading venues.
- No clearing fees are payable by either party.
- CCPs become members of each other and receive all member communications.
- Each party to an MCLA agrees all other MCLAs are to be consistent.
- MCLA provides for the timing at which inter CCP contracts come into being, performance and settlement of such contracts and for any remedy actions for systems errors, contingency events, etc.
- Each party is required to collateralise its margin obligations in accordance with the receiving parties requirements. All collateral to be free of all encumbrances and the depositing party to be the sole principal and sole legal and beneficial owner.
- No contributions to default funds.
- Coordinating central counterparty procedures apply to inter CCP contracts.
- CCP Default events are subject to the non defaulting CCP's rules.
- InterCCP procedures govern the day to day operational activities between the CCPs.

# Interoperability Overview

- Trading venue routes trades to each CCP
- No technical connectivity between CCPs
- Each CCP margins the other as a member



# CCP Default Protections

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LCH.Clearnet Limited has the following default protections

- Membership criteria, including due diligence
- Initial Margin, posted by the defaulting CCP
- Variation Margin, posted by the defaulting CCP
- LCH.Clearnet Limited's Capital

Under EACH Inter-CCP Risk Management Standards CCPs are recognised as non risk taking entities. To avoid contagion CCPs do not contribute to default funds. Consequently LCH Clearnet Ltd does not have recourse to the default fund in the event of a interoperable CCP failure.

# FAQs

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- I'd like to see the MCLA
  - The MCLAs are confidential, proprietary, commercial bilateral agreements which LCH Clearnet has invested considerable time and resource in. Therefore, whilst we are more than happy to share the principles of the MCLAs, we will not publish the agreements.
- How is CCP collateral ring fenced in the event of a default?
  - LCH.Clearnet currently collateralise margin requirements with Bank Guarantees thus eliminating any exposure in the event of a interoperable CCP default. In future we may use bonds as collateral which will be held in a segregated account in the name of LCH by the receiving party.
- Will interoperability increase member costs?
  - LCH.Clearnet will not pass the additional costs of interoperability to its members. However increased costs of interoperability may limit our future ability to continue to reduce clearing fees.
- How will interoperability affect buy ins?
  - Members will continue to be subject only to their CCP's buy in rules. Inter CCP procedures will allow the CCPs to administer buy-ins between them.
- How will interoperability affect corporate actions?
  - Members will continue to be subject only to their CCP's Corporate Action rules/procedures. Inter CCP procedures will allow the CCPs to administer Corporate Actions between them.