

Program and Project update

Achievements 2010 and Roadmap 2011

LCH.Clearnet SA

December 2010

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Introduction

- This document summarises LCH.Clearnet SA achievements in 2010 and the roadmap for 2011;
- This document encompasses initiatives with benefits and impacts for our Clients. Our internal initiatives are not covered by this document;
- Many initiatives and studies for next year are under review and the planning has to be confirmed;
- We intend to update and submit this document to our Clients when appropriate and with a minimum frequency of twice a year;
- For questions regarding this document please contact your account manager.

Please note that this document should be treated as indicative and subject to change, not least because most initiatives remain subject to Regulatory approval.

Achievements 2010

CDS Program: CCP services for Credit Default Swaps (CDS) contracts denominated in €

CDS Program

CDS Phase 1

- Successful implementation of a new CDS clearing platform for Inter-dealer business on iTraxx indexes;
- **Client benefits:** Protection from counterparty risk and enabling more efficient use of regulatory capital. The clearing model includes Back-loading, STP T+1 novation from DTCC -Trade Information Warehouse (TIW), all cash flows via T2, option style margin model and credit events management;
- **Launched:** 29 March 2010 with 4 Clients.

CDS Phase 2 interim phase

- Implementation of an enhanced CCP model (tested by 11 Prospects and 4 existing Clients);
- **Client benefits:** Enhanced service model i.e. ISDA & DTCC's Strategic Restructuring, New Variation Margin computation, Cash flows product linked via CLS and an updated Novation Model;
- **Launched:** 4 October 2010 with 4 existing Clients.

Achievements 2010

UCS Program: Replacement of Cash equity / Derivatives clearing system and implementation of a harmonised cash equity model (TDN)

UCS Cash

- Implementation of the new enhanced clearing platform on cash equity products on NYSE Euronext, Bourse de Luxembourg and Equiduct markets. UCS replaces the former system, which was in operation since January 2001;
- **Client benefits:** UCS has supported the fee reductions for our Clients as from 1 January 2010, supported by a drastic reduction of our IT run costs. UCS enables us to better serve our Clients and partners. The system is based on an enhanced modular architecture facilitating us to easily and rapidly respond to our Clients and market partners demands with one platform serving multiple markets. It also provides greater capacity and scalability, making it easier to increase the system's capacity and to connect new platforms more rapidly. We managed to develop and implement the new clearing core system whilst minimizing impacts on our Clients to ensure a smooth transition to UCS;
- **Launched:** 3 December 2010.

Achievements 2010

Projects

Intraday Margin call & Forward Repos margining

- Introduction of a systematic intra-day margin call on the Bonds & Repos segment in line with the Derivatives market and implementation of a specific margining of repos in the forward period;
- **Client benefits:** Reduce intra-day counterparty risk for all Bonds & Repos transactions;
- **Launched:** 21 May 2010.

London Gateway

- Complementary to the Cash equity clearing services on the Amsterdam, Brussels, Lisbon and Paris NYSE Euronext exchanges, we extended our offer to the London exchange listing shares and depository receipt (official list of the UK Listing Authority);
- **Client benefits:** Providing CCP service, risk management, netting facility and settlement through Euroclear for € denominated shares / depository receipt, and Euroclear Bank for all other currencies;
- **Launched:** September 2010.

Achievements 2010

Projects

Spanish government debt – phase 1

- The Bonds & Repos service has been extended to Spanish Government debt. In a first phase the service will include Repo transactions with a settlement at Iberclear, the Spanish local CSD.
- **Client benefits** The service has been implemented in response to a significant demand from the market and it will allow Clients to benefit from anonymous Bond & Repos trading and reduced counterparty risk.
- **Launched:** 17 December 2010.

Achievements 2010

Other initiatives

Malting Barley and Dairy products

- We supported NYSE Liffe in its Commodity products extension with the launch of futures and options on Malting Barley on 10 May 2010 and futures on Skimmed Milk Powder on 19 October 2010;
- The service is a natural extension to our commodities offering which has over 40 years proven experience;
- Other Dairy products are expected to be launched in 2011.

ROCH application

- We have been granted Recognised Overseas Clearing House (ROCH) status by the UK Financial Services Authority (FSA) i.e. to clear the Equiduct business;
- Through this ROCH status, we are able to conduct any regulated activity in the United Kingdom, which is carried out for the purpose of the provision of clearing services, which enables us to broaden our clearing offering, bringing greater efficiency and security to the markets we serve across Europe;
- Date granted: 25 May 2010.

Key Programs 2011

CDS

UCS

Fixed Income and Borrowing & Lending

CDS

CDS Program: CCP services for Credit Default Swaps (CDS) contracts denominated in €

CDS : next phases

- Following the launch of our Inter-Dealer CDS Clearing offer for iTraxx indexes our next goal is to onboard more Clients in the CDS Phase 2 target phase;
- Discussions are ongoing with a group of the main CDS dealers with respect to welcoming them as members and extending our service to cover:
 - Intraday novation of trades;
 - CDS Single Names;
 - Buy-side participants.
- **Client benefits:** Extension of the CCP guarantee to CDS products, providing protection from counterparty risk and enabling more efficient use of regulatory capital;
- **Target launch:** We hope to welcome new members in early 2011 (subject to regulatory approval) and to roll-out new services in the second half of 2011.

UCS Derivatives

UCS Program: Replacement of Cash equity / Derivatives clearing system and implementation of a harmonised cash equity model (TDN)

UCS Derivatives

- Following the launch of UCS Cash, we will replace the current Derivatives system by an enhanced clearing platform;
- The implementation concerns all Clearing members on NYSE Liffe derivatives market. However there are no identified technical or functional impacts for Clearing members. Pilot members will be requested to perform exhaustive and intensive internal tests, whilst the majority of Clearing members can perform tests in a free testing mode.
- **Client benefits:** UCS enables us to better serve our Clients and partners i.e. greater capacity and scalability, making it easier to increase the system's capacity to connect new platforms more rapidly, an enhanced modular architecture facilitating us to easily and rapidly respond to our Clients' and market partners' demands, economies of scale for exchanges with one platform serving multiple markets.
- **Target launch:** 2011 – Exact planning to be confirmed shortly

UCS Cash – Stream 2

UCS Program: Replacement of Cash equity / Derivatives clearing system and implementation of a harmonised cash equity model (TDN)

UCS – Stream 2 study

- The re-shaping of the International Markets and the accrued competitive environment have urged us to meet the market's demands and implement a full Trade Date Netting Model for the Cash equity markets we clear;
 - Implement a harmonised model on the continent in priority i.e. the current CNS model will be disconnected and a TDN model has to be implemented with Euroclear, Interbolsa and NBB;
 - We are preparing to work with settlement agents. After going through a RFI process, an RFP will be issued in 2011.
- **Client benefits:** TDN implementation will allow us to capture new business and to facilitate clearing of trades coming from MTF. This will allow our Clients to generate internal cost savings through operational, technical and organisational synergies;
- **Target launch:** In this new context, Euroclear, Interbolsa, NBB (National Bank of Belgium) and we are defining a set of enhancements and changes permitting such evolutions to take place within an appropriate timeframe. The work on a joint planning will continue early 2011.

Fixed Income and Borrowing & Lending

FIBL program: Covering all projects on the Bonds & Repos and Borrowing & Lending markets

FIBL Program

Fixed Income platform renewal

- The current version of Kondor+ will be supported by Reuters until the end of 2011. In anticipation, the Kondor+ system will be replaced by new technology. Our goal is to minimise the impacts on members;
- **Client benefits:** Increase performance to cope with the growth of volumes in these markets and reduce the time to market for future developments;
- **Target launch:** End of 2011.

Spanish government debt

- The Bonds & Repos service on Spanish government debt will be enhanced with additional services i.e. cash transactions, direct settlement in Iberclear and net settlement.
- **Client benefits:** Improved and enhanced service;
- **Target launch:** We hope to roll out new services in a phased approach in 2011

Harmonisation of French Debt Denomination

Please refer to slide 17

Fixed Income and Borrowing & Lending

FIBL program: Covering all projects on the Bonds & Repos and Borrowing & Lending markets

Collateral basket for Pledge

- Clearing of repos against basket collateral, with the possibility to pledge collateral in Banque de France. The initiative is supported by Euroclear as the service provider for collateral management and settlement;
- There are ongoing discussions with Euroclear and BdF to access the scope, costs and timing;
- **Client benefits:** Extension of clearing service scope on Bonds and Repos market.
- **Target launch:** Under study with the stakeholders, target implementation in Q4 2011.

SecFinex – Subsequent phases

- Following the implementation of SecFinex, we intend to enhance the service with important functionalities: COE process, re-rates and partials (non cash collateral would be covered in a subsequent phase);
- **Client benefits:** Improved and enhanced service;
- **Target launch:** Planning is pending agreement on some elements between NYSE Euronext, SecFinex and us.

Project list 2011

Ongoing projects

Cassiopeia – new corporate bond service
NYSE-EN IT roadmap (UTP Derivatives)
Harm. French Debt denomination
Financial statements in XML format

Pipeline projects

Electronic invoices and evidences
Liffe Asian trading hour

Ongoing projects

2011

Cassiopeia – new corporate bond clearing service

- European Cassiopeia Committee has expressed the need to improve transparency in the euro-denominated bond market, liquidity, post-trade services and reporting. In response to this, LCH.Clearnet SA is launching a new clearing service to support Cassiopeia approved MTFs on the Cash Equity clearing system.
- **Client benefits:** CCP service, risk management, netting facility and settlement through Euroclear , Interbolsa and Clearstream;
- **Target launch:** March 2011

NYSE Euronext IT roadmap (UTP Derivatives)

- This program was initiated by NYSE Euronext in 2008. All Cash market migrations have been completed as of today. We are following NYSE-EN closely with their migration of the Derivatives trading system to UTP in 2011. As far as we are concerned the migration is transparent and **no impacts are foreseen for our Clients;**

Ongoing projects

2011

Harmonisation of French Debt Denomination

- The French market place project aims at harmonising French debt denomination with International standards. The French market place will therefore move from unit (UNT) to facial amount (FMT) processing. At the same time, the project aims at harmonising the calculation rule of the French bonds accrued coupon with the international usage i.e. commercial rounding at 7 decimals;
- The project will both impact the Cash equity and the Bonds and Repos platform;
- **Client benefits:** Harmonisation of French bonds following international standards;
- **Target launch:** 24 October 2011 (Members tests in June - July and September - October 2011*).

Financial statements in XML format

- Our financial statements are currently available for our Clients in printable and non standardised format file (txt). STP of these files is difficult and following Clients' requests, we decided to provide the financial reports in XML format using the ISO 20022 standard;
- The XML reports will be available on Clients access means in addition to the current printable reports, in order to ensure a smooth implementation for our Clients;
- **Client benefits:** STP processing of Financial statements;
- **Target launch:** Expected at the end of Q1 2011.

Pipeline projects

2011

Electronic invoices and evidences

- Invoices and evidences are currently sent by post to our Clients. We wish to improve our communication and exchange process with Clients, by implementing a new service in order to make invoices and related evidences available for members on a portal:
 - In a first phase on dematerialization of monthly invoicing evidence report and invoices,
 - In a second phase to have a possibility to dematerialize others communications or documents.
- **Client benefits:** Service improvement;
- **Target launch:** The project is currently under study and planning will be confirmed later.

Liffe Asian trading hours

- NYSE Liffe wishes to bring the opening times of its trading platform forward from the current time of 8:00 a.m. to 2:00 a.m. CET for CAC40 and AEX Futures;
- **Client benefits:** The project will enable Asian firms to trade on CAC40 and AEX Futures and bring additional volume and liquidity.
- **Target launch:** We are verifying how to provide the appropriate clearing service on this period. The new service is wished to be launched in Q1 2011.

Studies

Spanish Cash equities

Equities / Indices OTC Derivatives

Target2 securities specifications analysis

European affairs

Giovannini barrier 1

Corporate Event Standard

Studies

2011

Spanish Cash equities

- Spanish regulators have started a global consultation on the implementation of a CCP on the Spanish equities market in Q2 2010, we responded to this consultation and offered our contribution. The regulators have not yet come back with a decision.

Equities / Indices OTC Derivatives

- Following the CDS program approach, we are now thinking about enlarging our clearing service offer on other OTC markets, including Equity/Index derivatives;
- Meetings with interested members will be held to initiate a feasibility study.

Target2 securities specifications analysis

- T2S published its planning and one important date is December 2013 when the platform will be opened for user testing. We now have to study the interaction with T2S. To do so, we are in contact with several NCSDs partners (i.e. Euroclear ESES, Monte Titoli, Interbolsa, NBB and Iberclear).

Studies

2011

European affairs

- This item covers EMIR/EMIL, Short selling future Directive, Move to TD+2 settlement. We are following the developments closely and verifying the opportunities and impacts.

Giovannini barrier 1

- In 2010 we contributed to the definition of ISO and FIX standards regarding “clearing messages” between CCP and Clearers and the definition of the “T2C” messaging between MTF, Trading PF and CCPs. Finally, we provided our support to the “SWIFT ISO reverse engineering” initiative to define the ISO20022 standard;
- We are studying the implementation of some of these standards in the Treasury processes with an implementation in 2011. In the future we should also provide ISO messages to clearers or settlement messages to (I)CSDs. An ultimate deadline should be Target2 Securities in 2015.

Corporate Event Standard

- Euroclear ESES announced a progressive implementation of Corporate Event (CE) standards along 2011 and 2012. Priorities have been set during the summer by users (including LCH.CN SA).
- Specifications and developments are scheduled for 2011 with a deployment in production in Q4 2011 in the ESES markets.