

Program update

Achievements 2011 and roadmap 2012

LCH.Clearnet SA

January 2012

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Introduction

- This document summarises LCH.Clearnet SA's achievements in 2011 and the roadmap for 2012.
- Certain elements of the 2012 roadmap are still being defined. Only confirmed initiatives have been included in this document.
- This document encompasses the key initiatives with benefits and impacts for our Clients. Our internal initiatives are not covered by this document.
- This document is issued on a quarterly basis to Clients.
- You can contact your account manager should you have any questions about this document.

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

Achievements 2011

Spanish government debt

- We launched the Spanish debt on our Bonds and Repos service on 17 December 2010 and decided to further extend and enhance our service in the course of 2011.
 - MTS S.p.A and the Matching platform ETCMS have been added to the Spanish debt service on Monday 17 January 2011;
 - The settlement instructions are settling on LCH.Clearnet SA direct account in Iberclear as from Friday 25 February 2011.

For further enhancements to the service in 2012, please refer to slide 14.

CDS

- An enhanced CDS platform based on the T+1 Novation model has been launched on 6 May 2011.
- A Marketwide Restructuring Credit Event test was performed from the middle of March until early April 2011. All current and future clients have successfully participated in this Marketwide test that included most of the CDS clearing functionalities.
- Completed the qualification tests with new CDS dealers on the T+1 Novation model.

Achievements 2011

New corporate bond service

- European Cassiopeia Committee has expressed the need to improve transparency, liquidity, post-trade services and reporting in the euro-denominated bond market. In response, we launched a new clearing service for NYSE BondMatch transactions on the Cash Equity clearing system.
- **Client benefits:** CCP service, risk management, netting facility and settlement in a first step through Euroclear and Interbolsa.
- **Launched** : 11 July 2011

For further enhancements to the service in 2012, please refer to slide 12.

Financial statements in XML format

- Our financial statements are now available in XML format using the 20022 standard. The statements are available in addition to the printable statements and both available on Client access means.
- **Client benefits:** STP processing of Financial statements and automatic reconciliation.
- **Launched:** End of August 2011

Achievements 2011

Harmonisation of French Debt Denomination

- The French market place project harmonised the French debt denomination with International standards. The French market place has moved from unit (UNT) to facial amount (FMT) processing for bonds quoted in % and for which the CSD of reference is Euroclear France. Bonds remaining in UNT have been removed from the Cash clearing scope and are now listed on NYSE Euronext's Trade Confirmation System.
- The project also harmonised the calculation rule of the French bonds' accrued coupon with international usage i.e. commercial rounding at 7 decimals.
- The project impacted both the Cash equity and the Bonds and Repos platforms. There was limited impact for clients, as the report/files format did not change;
- **Client benefits:** Harmonisation of French bonds following international standards. The harmonisation is expected to make the French bonds markets more liquid and competitive;
- **Launched:** 24 October 2011.

Achievements 2011

Electronic invoices and evidences

- Invoices and evidences used to be sent by post to our Clients. We have improved our communication and exchange process with Clients, by implementing a new service to dematerialise monthly invoices (signed pdf and xml) and invoicing evidence report (xml). The invoices and evidence reports is available for clients on a web portal or peer to peer connection (SFTP);
- **Client benefits:** Service improvement; The initial one-off fee to set up the SFTP server connection is waived until the end of June 2012.
- **Current status:** The deployment occurred in three subsequent phases, August, September and October for full implementation
- **Launched:** Full implementation on 10 October 2011.

NYSE Euronext IT roadmap (UTP Derivatives)

- **Launched:** NYSE Euronext completed the migration of Derivatives to UTP on Monday 5 December 2011. There was no impact for LCH.Clearnet SA clients.

Key Programs 2012

CDSClear

Exchange & Commodities Derivatives

Cash Equities

Fixed Income

CDSClear

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

CDS program - next phases

- Our next goal is to on board new Clients and continue to extend our service offering.
- **Client benefits:** Extension of the CCP guarantee service, providing protection from counterparty risk and enabling more efficient use of regulatory capital.
- **Current status:**
 - Charlie Longden has been appointed as CEO of CDSClear;
 - A new service enhancement roadmap has been agreed with the CDS dealers;
 - A new version of the rulebook is expected to be validated by the regulators shortly;
 - The DCO application is in preparation to extend CDS offering to US based dealers.
- **Target launches subsequent phases:**
 - New dealers are expected to on board in Q1 2012 and a release of the platform including Intraday novation is planned for Q2 2012;
 - The service will be extended with Single Names and the Buy side in Q4 2012.

Exchange & Commodities Derivatives

Listed Derivatives - UCS Derivatives

UCS Derivatives

- We have launched UCS Cash in December 2010. Following this migration we will now replace the current Derivatives system with UCS technology. The implementation will be on a like for like principle (no technical and functional impacts).
- **Client benefits:** UCS enables us to better serve our Clients and partners. It provides greater capacity and scalability, making it easier to increase the system's capacity. It also allows to connect new platforms more rapidly. The enhanced modular architecture facilitates us to easily and rapidly respond to our Clients' and market partners' demands and provides economies of scale for exchanges with one platform serving multiple markets.
- **Current status:**
 - Four pilot clients agreed to perform exhaustive internal tests, whilst all other clients can perform tests in a free testing mode.
 - We will also perform parallel testing with the pre-production and production platform to validate the new system.
 - The system developments have been completed and the internal tests are ongoing. The tests with Pilot members will start in January 2012 and the free tests for all members at the end of February 2012.
- **Target launch:** 30 March 2012

Cash Equities

UCS - Stream 2 study

UCS – Stream 2

- The re-shaping of the International Markets and the accrued competitive environment have triggered the market's demands to implement a full Trade Date Netting Model for the Cash equity markets we clear;
- Stream 2 aims to implement a harmonised model on the continent in priority i.e. the current CNS model would be disconnected and a TDN model would be implemented with Euroclear, Interbolsa and NBB;
- **Client benefits:** TDN implementation will allow to capture new business and to facilitate clearing of trades coming from MTFs. Therefore, Clients will generate internal cost savings through operational, technical and organisational synergies.
- **Current status:** The project is on hold pending internal decisions following future developments in the Cash equity market.

Cash Equities

Other Cash initiatives

New corporate bond clearing service

- Following the launch of NYSE BondMatch the next trading platform which will be connected to our corporate bond clearing service is Galaxy. We will also extend the settlement offer with Clearstream in a second phase.
- **Current status:** The tests with the Galaxy platform are ongoing.
- **Target launch Galaxy:** Q1 2012

SecFinex – Subsequent phases

- Following the implementation of SecFinex, we wanted to enhance the service with important functionalities: manufactured dividends processing, re-rates and partials (non cash collateral would be covered in a subsequent phase);
- **Current status:** Project **stopped** following SecFinex decision to close down the business.

Fixed Income

Fixed Income platform renewal

Fixed Income platform renewal

- The Fixed Income Clearing platform currently used in London for the RepoClear business will replace the Kondor+ system;
- **Client benefits:** Single clearing platform for Fixed Income activity and harmonisation across the group.
- **Current status:** In initiation - related planning exercise is ongoing.
- **Target launch:** End 2012 (date to be confirmed)

Fixed Income

Spanish government debt

Spanish government debt

- The Bonds & Repos service on Spanish government debt will be further enhanced with additional features (target solution) i.e. cash transactions and net settlement under Power of Attorney. It will allow to offer clients a similar service as the one provided at this time on the French debt.
- **Client benefits:** Improved and enhanced service;
- **Current status:** Clients' testing has started mid May 2011. The approval of Spanish authorities has been obtained mid December 2011.
- **Expected launch:** March 2012.

Connections to Trading and Matching platforms are due to be extended with Tullett Prebon Repo after the launch of the target solution.

Fixed Income

Collateral Basket with Pledge

Collateral Basket with Pledge

- Launch of a new clearing service for tripartite repo trades on collateral baskets that can be pledged for refinancing by Central Banks, hence its denomination.
- **Client benefits:** More liquid, anonymous and secure alternative to existing traditional money market.
- **Current status:** The service is defined by three parallel working groups respectively lead by BdF, Euroclear and LCH.Clearnet. The draft service offer has been released to the working group. The service offer will be released to clients in the following weeks.
- **Target launch:**
 - June 2012 as far as the LCH.Clearnet service is concerned;
 - November 2012 for intra-operability at Euroclear level (CMS EB/ESES) with CSDs/iCSD assessed links;
 - Planning of subsequent phases i.e. Inter-operability between other CMS will be confirmed at a later stage. The model design is being studied at the European Repo Council level with CCP's / iCSD's.

Service improvement 2012

STP - Collateral management

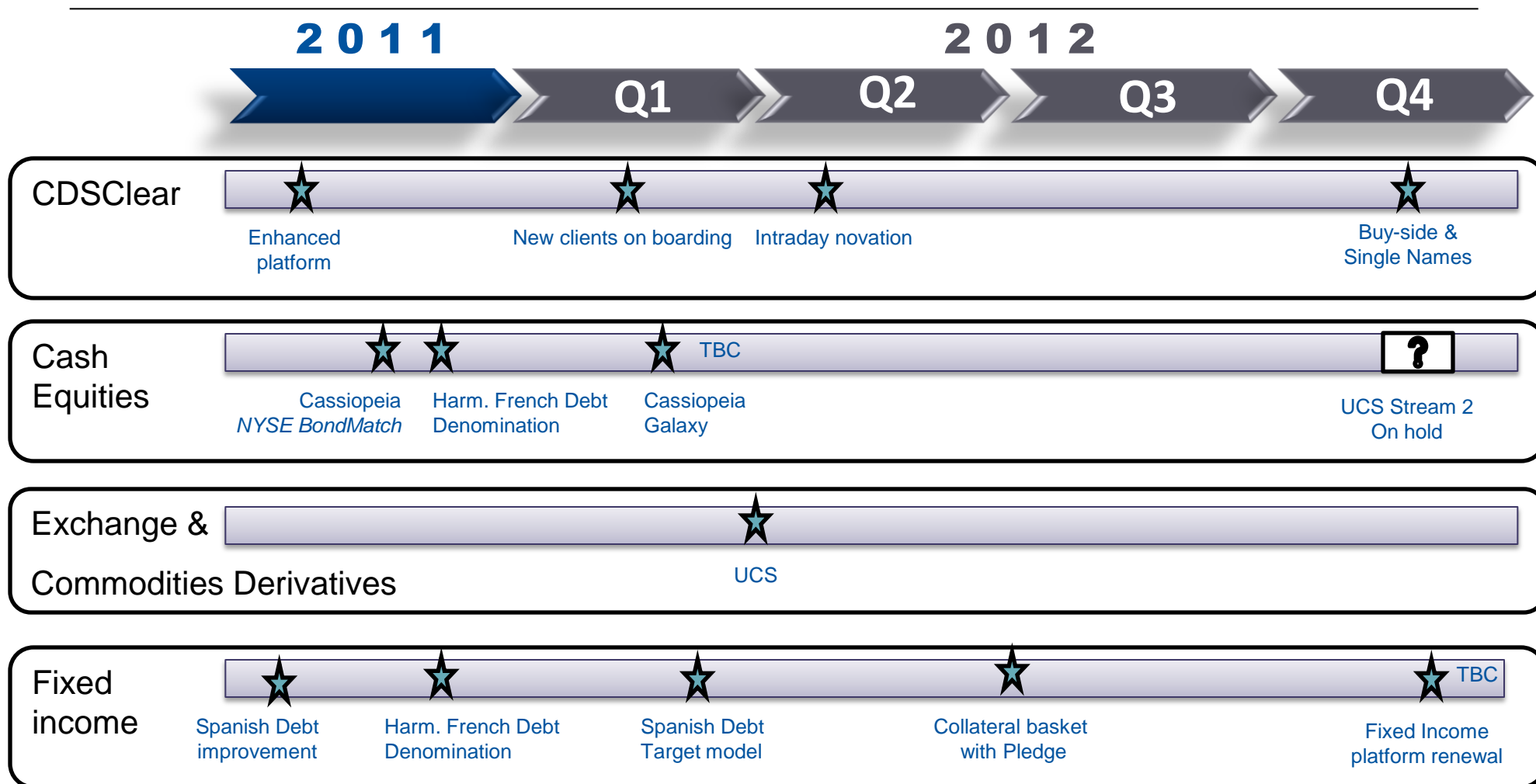
Service improvement

STP – Collateral management

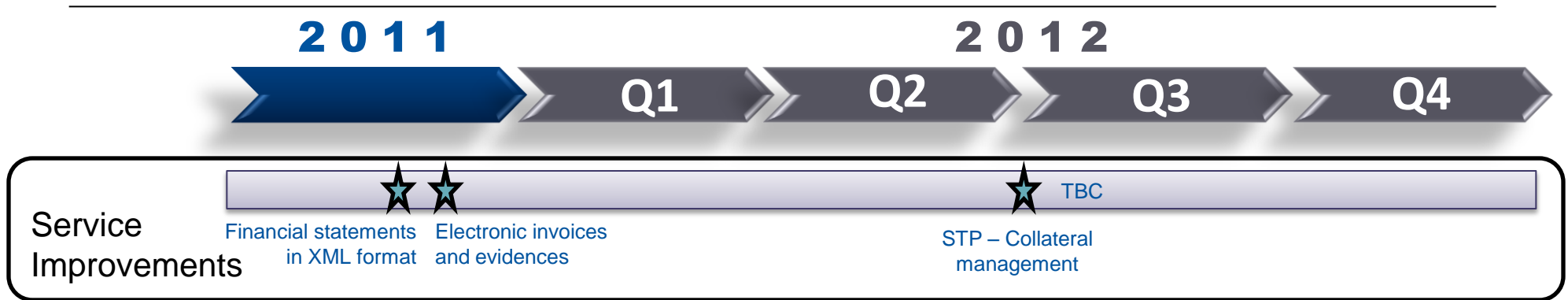
STP – Collateral management

- The fax process regarding collateral deposit, withdrawal and security substitution will be replaced by XML messaging (ISO 20022).
- **Client benefits:**
 - Increase operational security and efficiency – STP
 - Improve operational control and traceability
 - Better/faster turnaround times
- **Current status:** Analysis with SWIFT is ongoing to prepare the developments in our Collateral management system. Further information will be sent to clients in the following weeks.
- **Target launch:** Q2 - Q3 2012 (To be confirmed).

Macro Plan



Macro Plan



Studies

Spanish Cash equities

Equities / Indices OTC Derivatives

Target2 securities specifications analysis

European affairs

Communication Standard (GB1)

Corporate Event Standard (GB3)

Studies

2012

Spanish Cash equities

- Spanish regulators have issued a second consultation on the implementation of a CCP on the Spanish equities market in Q1 2011. We responded to this consultation and offered our contribution.
- Changes in the Spanish law are required for a CCP to be launched, this change is a priority. Timing is still to be confirmed (RFP expected in early 2012).

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

Studies

2012

Target2 securities specifications analysis

- Although the T2S planning is delayed, LCH.Clearnet SA maintains its strong interest in this European Project. As soon as the Framework Agreement and migration waves have been defined, LCH.Clearnet SA will continue to work with the concerned CSDs and markets to analyse the most efficient way to send the cleared flows for settlement in T2S;
- We are in contact with several NCSDs partners concerning this analysis i.e. Euroclear ESES, Monte Titoli, Interbolsa, NBB and Iberclear

European affairs

- This item covers EMIR, Short selling future directive, Basel III and CPSS-IOSCO Principles, CSD legislation, Harmonization to TD+2 settlement. We are following the developments closely and verifying the opportunities and impacts.

Studies

2012

Communication Standard (GB1)

- In 2010 we contributed to the definition of ISO and FIX standards regarding “clearing messages” between CCPs and Clearers and the definition of the “T2C” messaging between MTFs, Trading PFs and CCPs. Finally, we provided our support to the “SWIFT ISO reverse engineering” initiative to define the ISO20022 standard. In 2011 we contributed to the enhancement of collateral management messages in 20022 based on CCPs specific needs.
- We have leveraged this study to implement new Financial reports in 2011 (see slide 5). In the future, we should also provide ISO messages to clearers or settlement messages to (I)CSDs. The ultimate deadline should be Target2 Securities in 2015.

Studies

2012

Corporate Actions Standard (GB3)

- Euroclear ESES announced a progressive implementation of Corporate Action (CA) standards along 2011 until 2013. Priorities have been set during the summer by users (including LCH.CN SA).
- LCH.Clearnet SA as a Market Infrastructure is closely involved in the gap analysis and the implementation plan with the market through its participation in the MIGs (Market Implementation Groups). Among several objectives, one is to substantially reduce the volume of Corporate Actions on flows. The consequences for the clearing flows management is the limitation for market claim/transformation on fails only.
- As far as LCH.Clearnet is concerned, the main benefits (CA on flows) should be reached at Target2 Securities horizon where Standard on corporate actions on flows should be implemented by Euroclear ESES.