

The Settlement Connect Service Offer

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Introduction

A client-oriented strategy

The LCH.Clearnet integration strategy permits to create an integrated pan-European clearing and settlement model which will enable Euronext members and DTS¹ members to trade, clear and settle the largest number of Euronext securities through a single set of seamless and cost efficient procedures.

The LCH.Clearnet integration strategy was part of the broader integration strategy of LCH.Clearnet and Euroclear which had aimed to create one single capital market through the gradual consolidation of multiple national markets. Therefore LCH.Clearnet and Euroclear had designed an overall migration strategy, which comprised several steps leading progressively to an integrated Euronext market able to open up to a pan European integration.

The various steps of the migration were:

- Step 1: Introduction of a single Trading system (NSC) with three separate Market Segments.
- Step 2: Introduction of a single Clearing system across three separate Market Segments.
- Step 3: Introduction jointly by, LCH.Clearnet, Euroclear of Settlement Connect and Flux Bourse – the ESES (**Euronext Stock Exchange Settlement**) Program.

The implementation of the third step means, amongst others, that LCH.Clearnet members and IT services Vendors will be no longer connected to the local legacy clearing systems for the interface into settlement but will have a single access with an harmonised interface for both upstream and downstream services and processes (input and reporting) with LCH.Clearnet.

Finally, the Settlement Connect program provides members with increased openness and flexibility in terms of their settlement processes monitoring, allowing them to settle:

- Either directly in their own account
- Directly on several sub-accounts (in order to segregate the flows and assets of their trading members or clients)
- On the account(s) of their custodian(s)/settlement agent(s)
- A combination of the above solutions according to the kind of securities and the Clearing Members' client requirements

Regarding the participation of Euroclear in this program, it allows to settle either in the local CSD (EF, ENL, EBE) or in EB. This program = Flux Bourse

As a consequence, members are able to shorten the settlement chain when a re-delivery is required, by settling directly on the account designated by the final client.

In parallel with technical rationalisation, LCH.Clearnet has analysed the different practices previously in place in Amsterdam, Brussels and Paris, and have standardised towards the best practice, across locations. Clearing Members benefit from the harmonisation of these business rules.

All Members are able to process Euronext-listed securities, DTS securities with the same procedures and infrastructure, and this enables them to enter into new markets much easier.

The main features that have been adopted for implementation are:

- Use of a DvP process in all locations
- Use of a single location for managing cash collateral flows, as well as the settlement process whatever the Euronext-listed securities
- Harmonised fails management policy which provides members and markets with a secure framework
- Continuous net settlement function progressively applying to all locations creating a harmonised and more efficient management of the settlement flows including fails
- A single way progressively applying to handle non guaranteed trades

The final step of the ESES program aims to offer a single client access for clearing and settlement for a large list of Euronext-listed equities and trackers.

¹ DTS : Dutch Trading Service; i.e. Dutch Securities traded on LSE and cleared by LCH.Clearnet SA

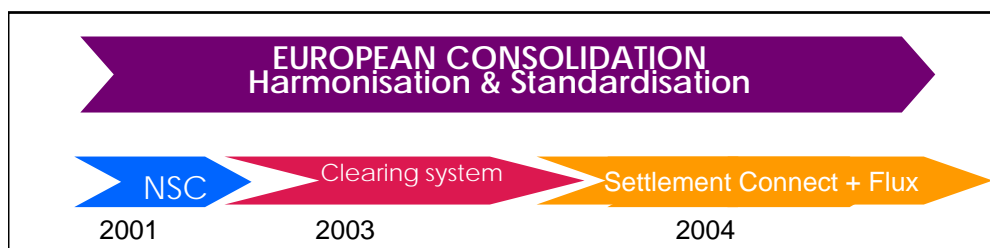
In light of the LCH-Clearnet merger, the openness and flexibility provided needs to be considered on a wider basis than the Euronext zone exclusively. The establishment of links will give current LCH.Clearnet members additional opportunities to rationalise their back-office interfaces.

A phased approach

The integration of the clearing, settlement and custody services has similarly been implemented across multiple phases involving different functional components and has gradually provided incremental benefits for the members.

To enable members to already capture these consolidation benefits before achieving the ultimate integration into one single settlement platform (called respectively the Single Settlement Engine (SSE) and Single Application Platform phases (SAP)), a phased ESES program was defined.

The exhibit below illustrates the key phases of the ESES program:



- Phase 3.1 - ESES Paris or “Flux Bourse”: settlement link Euroclear Bank – Euroclear France (launched in June 2002)
- Phase 3.2 - Settlement Connect (for the Paris Segment), (launched in January 2004,
- Phase 3.3 - Settlement Connect (for the Brussels (launched in April 2004) & Amsterdam’s (launched in September 2004) segments).

Phase 3.1 - Flux Bourse Paris

In this phase (already launched in July 2002), members have the possibility to select either Euroclear France or Euroclear Bank for internal book-entry settlement of the Euronext Stock Exchange trades on the Euronext Paris segment.

Internal book entry DvP settlement is achieved as LCH.Clearnet acts as central counterpart in Euroclear France as well as in Euroclear Bank for guaranteed securities/trades. This program has been developed on the old legacy system “ISB”

Phase 3.2 – Settlement Connect for the Paris segment

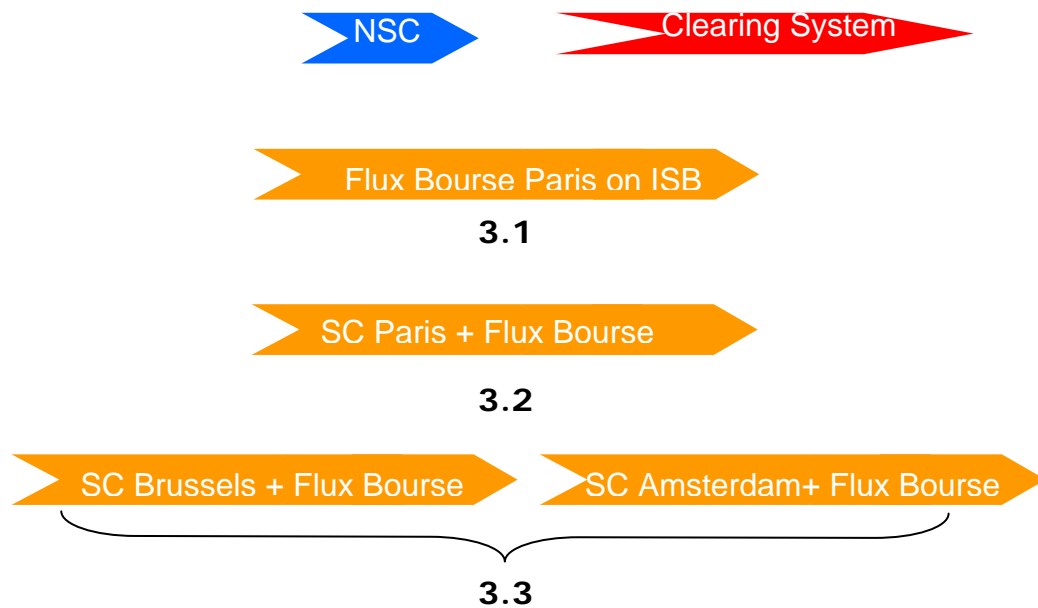
✓ This phase was launched in March 2004, permitted to remove the clearing interface ISB (Paris), and enabled the rollout of Settlement Connect.

Phase 3.3 - Settlement Connect for the Amsterdam & Brussels segments with Flux Bourse Amsterdam/Brussels

This phase was launched during 2004 and permitted:

- to remove the clearing interfaces LCP (Brussels), CNS (Amsterdam) and to enable the rollout of Settlement Connect

- To enable internal book-entry DvP settlement of Euronext Stock Exchange trades of the Amsterdam segment in either Euroclear Netherlands or Euroclear Bank, and of the Brussels segment in either EBE or Euroclear Bank, similar to Flux Bourse Paris.



Next steps

The consolidation of settlement platforms is handled by Euroclear and consists in 3 phases:

Single Settlement Engine 2006

Euroclear Settlement of Euronext zone Securities 2007/2008

Single Application Platform 2009 ...

Chapter 1

LCH.Clearnet Clearing Model

To support the Euronext integration strategy, LCH.Clearnet developed the LCH.Clearnet Clearing Model which aims to provide efficient and flexible clearing services across multiple markets and across multiple instruments.

It enables members to process international securities with the same procedures and infrastructure as domestic ones and ultimately, defines the services LCH.Clearnet aims to deliver to its members (as illustrated in exhibit below).

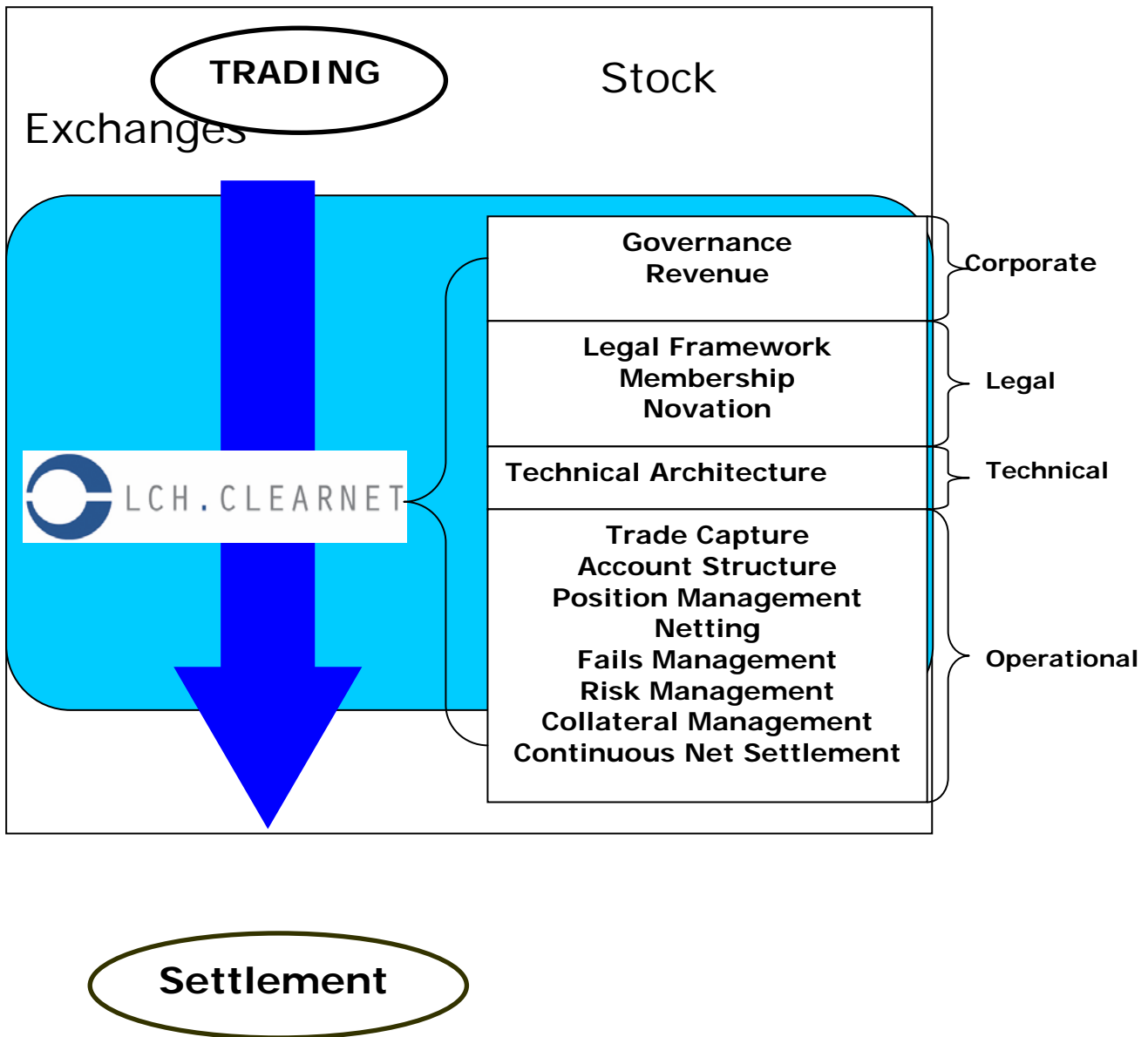
In the increasingly competitive European market landscape, the LCH.Clearnet Clearing Model seeks to combine the virtues of vertical excellence with horizontal flexibility. This open and flexible model enables LCH.Clearnet to capture transaction flows upstream for multiple markets and instruments and to pass transaction flows downstream to multiple CSDs-ICSDs with maximum efficiency. This model provides also the basis on which members will be able to capture the benefits of the recent merger of LCH.Clearnet and the London Clearing House.

The LCH.Clearnet Clearing Model provides a harmonised set of clearing rules and practices, in the first place to the Euronext markets, but potentially to a wider set of markets. By offering a standard for the clearing function, LCH.Clearnet expects to contribute to a lowering of costs and greater efficiency of the European capital markets.

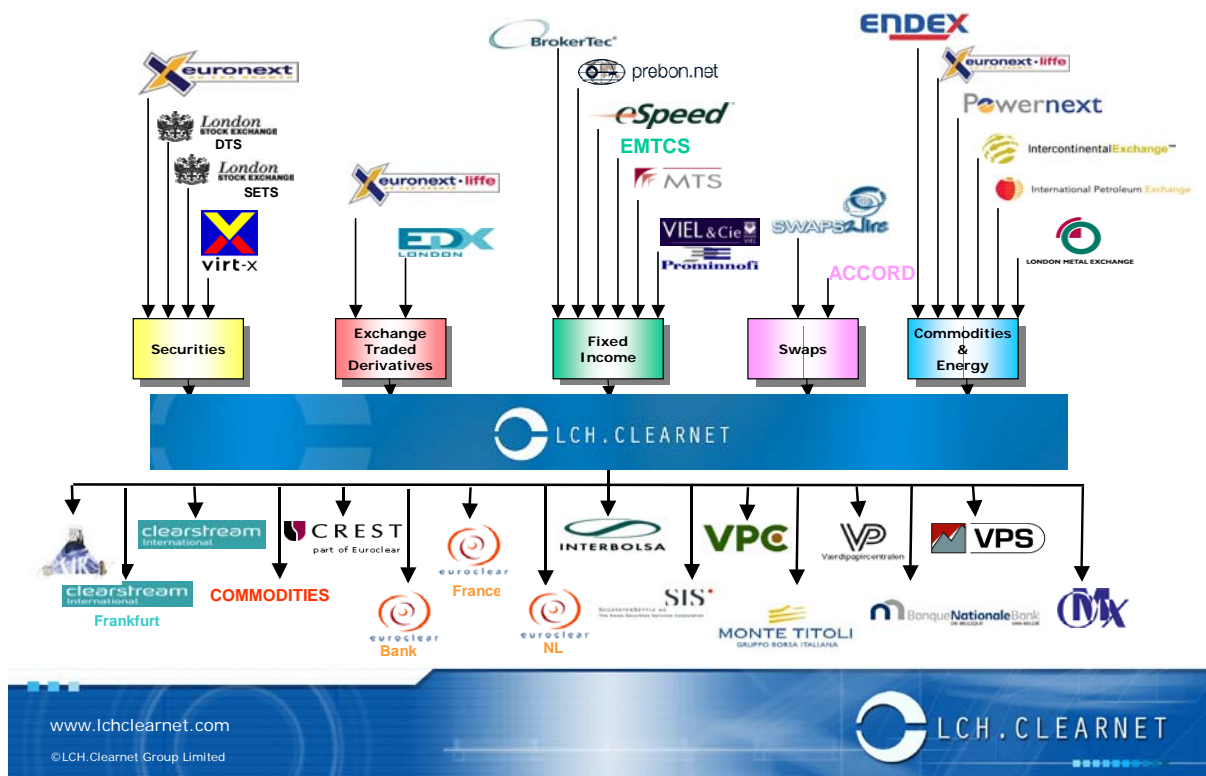
Moreover, the LCH.Clearnet Clearing Model seeks to provide maximum flexibility for members to chose their preferred service provider at respectively trading, clearing and settlement level. The model creates a level playing field in which members can choose to be active in all parts of the service value chain or alternatively to optimise operational processes by outsourcing select processing components to external service providers.

When considering the various Central Counter Party (CCP) models there are fundamental services that are required to be performed in order to maintain the integrity of financial markets. The LCH.Clearnet Clearing Model (CCM) provides a high level description of these functionalities and how LCH.Clearnet delivers these services.

The LCH.Clearnet Clearing Model (CCM) provides an overview of the services that LCH.Clearnet offers to its users.



Broad range of markets served



Chapter 2

Settlement Connect Product

2.1 Objectives

In order to increase clearing and settlement efficiencies and reduce costs, the Settlement Connect Project seeks to optimise and rationalise the link downstream to settlement by setting-up a new module within the Clearing System called "Settlement Connect" (SC).

The new module has replaced the multiple interfaces (LCP, CNS and ISB/settlement functions) previously used to communicate with each local CSD or Settlement platform and replaced it with a centralised single interface, in addition to facilitating the link to the Euroclear Platform Interface (PI).

This means that LCH.Clearnet members and ISVs, are no longer connected to their local legacy system for the interface into settlement and local clearing reporting is replaced by an harmonised reporting provided by the new module.

This rationalisation is a key component of the future implementation of the integrated Settlement Model for the Euronext markets, the "Euroclear Settlement of Euronext zone Securities" (ESES).

In addition to the technical impacts, this rationalisation also required the necessary functional harmonisation between the different practices previously in place in all locations.

2.2 Functional harmonisation

The setting-up of this new module Settlement Connect to serve as the single interface with the Settlement Platforms required an harmonisation of the clearing business rules in terms of settlements while keeping the necessary flexibility in order to cope with the different possibilities and requirements of the existing platforms.

LCH.Clearnet's approach consisted in analysing the different practices currently in place in Amsterdam, Brussels and Paris and to adopt towards the best practice across the different locations. Though this implied changes for members in the short term, it was part of the common effort to build a European standard in terms of post trade processing and was in line with the Giovannini recommendations. Clearing Members benefit from the harmonisation of these business rules, especially those who are active in the clearing of multiple Euronext markets.

The harmonisation areas are:

- Use of a DvP process on both cash and securities sides for respectively the different CSDs-ICSD and the Central Banks-Euroclear Bank;
- All instructions sent by LCH.Clearnet are deemed to be matched through a Power of Attorney allowing LCH.Clearnet to credit and debit members (or settlement agents) cash and securities accounts;
- Net Settlement is applied on all positions guaranteed by LCH.Clearnet;
- Implementation of a flexible account structure through the creation of Delivery Accounts;
- A single continuous net settlement method made up with a pre-netting and an aggregation process;
- A unique way progressively applying to handle non guaranteed trades
- An harmonised fail management policy;
- A harmonised clearing reporting designed to the members.

2.3 Technical rationalisation

The technical rationalisation concerned the replacement of the remaining old local clearing systems (LCP, CNS and ISB) that previously were the interface with the local settlement platforms, by a new module which is used as a single interface to the platform Interface of the Euroclear group. This central module is also able to provide a single reporting (by market segment and per settlement platform) to Clearing Members.

2.4 Expected Benefits & Costs

LCH.Clearnet provides to members a high level of efficiency and security along the processing value chain from trading to settlement. The implementation of Settlement Connect seeks to deliver such efficiency and security, but requires investment from LCH.Clearnet and its members. LCH.Clearnet recognises the investment required by members and aims to maximise member benefits such as reduction in the cost of capital and lowering of indirect member costs.

The overall clearing and settlement transaction costs for members of a transaction include both direct costs and indirect costs. Direct costs (mainly clearing and settlement fees) represent the smallest part of the cost. It is largely acknowledged amongst the financial community that indirect costs (such as infrastructure necessary for transaction processing) are far the most important. Moreover, these costs can vary a lot between members because of differences in size, structure and organisation.

Since the implementation of Settlement Connect, LCH.Clearnet provides one single and flexible processing platform across the Euronext market segments enabling members to reduce their indirect transaction processing costs.

To reach this goal, LCH.Clearnet will, first of all, maintain the current safe and secure environment and gradually expand services around this existing platform during the different phases of implementation. This will create a solid foundation on which savings on indirect costs become possible.

The services to be delivered with Settlement Connect seek to create member benefits along three key drivers that work together to drive down indirect costs:

- Cross border: costs arising from the persisting market fragmentation
- Flexibility: costs arising from the need of members to support distinct business models and different client service requirements
- Straight through processing: costs arising from a lack of STP in the transaction processing chains

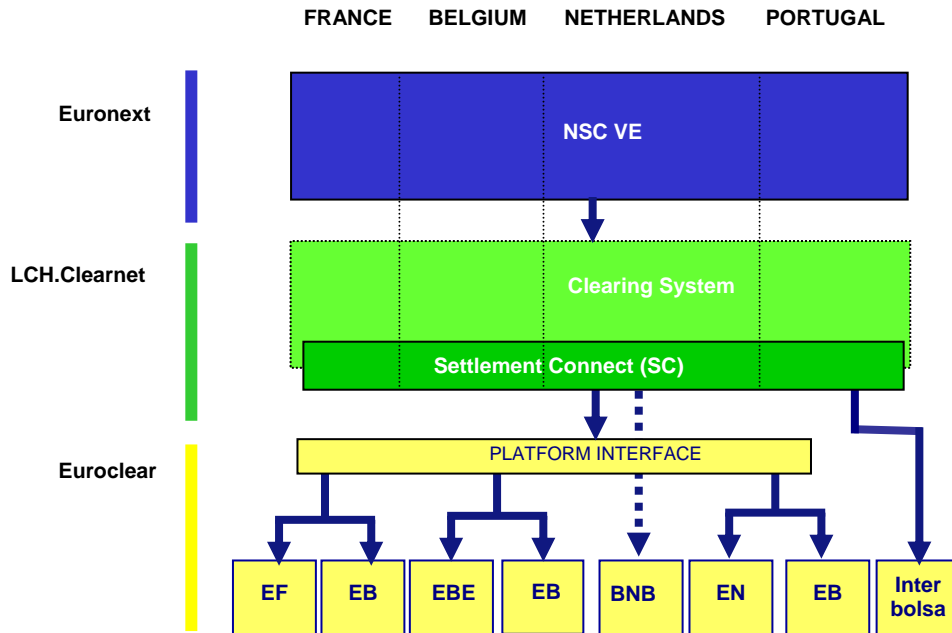
The following matrix aims to show the relationship between services provided by the Settlement Connect project and these three drivers of efficiency and how these services seek to reduce members indirect costs.

Service description	Cross border	Flexibility	Straight Through Processing
Account structure		✓	✓
Position management			✓
Fails management	✓		✓
Settlement	✓		✓

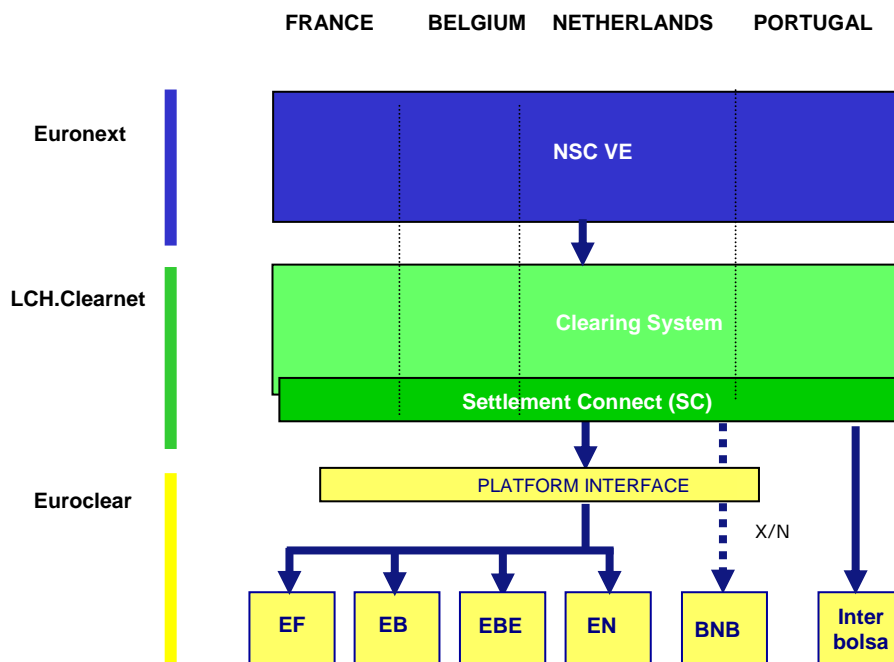
2.5 The consolidation

LCH.Clearnet has chosen a secured and efficient way to go from the current situation to the final Euronext Stock Exchange Settlement (ESES). This way is paved of different phases which can be summarised as such:

- **The current situation (March 2005)**

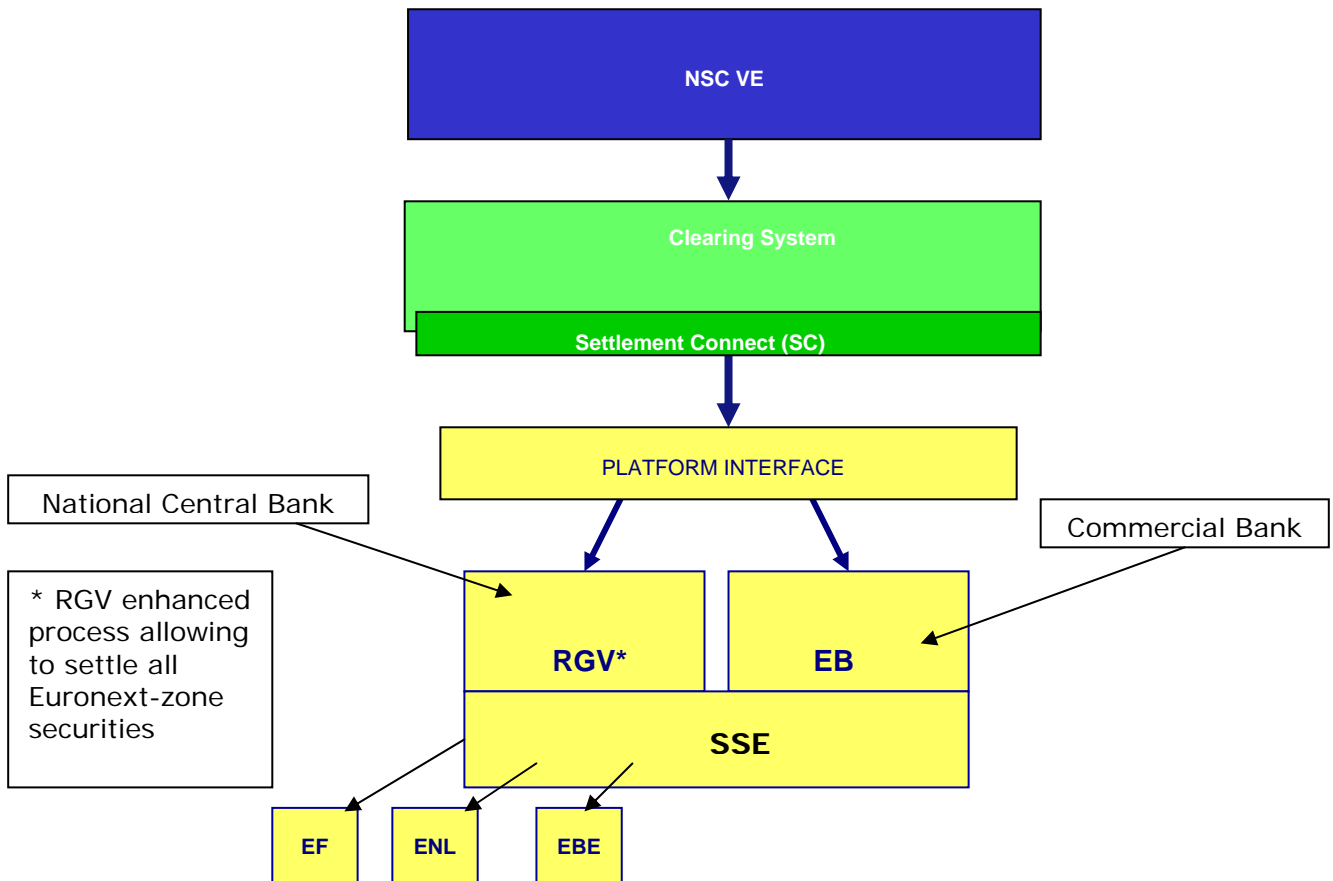


Situation 2006 Q1



At the end of Euroclear consolidation

Probably end 2007/ 2008



Chapter 3

Settlement Connect Business Rules

The setting-up of a single module to serve as the single interface with the Settlement Platforms relies on LCH.Clearnet willingness to harmonise the Clearing business rules in link with the settlement while keeping the necessary flexibility in order to cope with the different possibilities offered by these platforms.

The harmonised functions and their attached business rules are grouped into two main chapters:

- ➔ Delivery Accounts purpose, paying & settlement agent facility and partial netting
- ➔ Fails management policy

3.1 Delivery Accounts purpose, Payment & Settlement Agent facility and partial netting

3.1.1 Delivery Account structure / Settlement agent facility

The creation of the 'Delivery Accounts' (DA) provides members with a high degree of flexibility in the way of "driving" their settlement flows. Clearing Members are able to define the desired level of aggregation of positions to be settled as positions posted in more than one position Account (PA).

The DA replaced the CNS and LCP accounts; such accounts did not previously exist in Paris.

3.1.1.1 Reminder of the basic rules

A - Links between a Clearing Member and the Delivery Accounts (DA)

- ✓ A DA can only exist within a Clearing Member's account structure.
- ✓ A DA belongs to one and only one Clearing Member. Positions rolled-up in a DA can therefore only belong to the Clearing Member or to the trading members cleared by the aforementioned Clearing Member (sponsorship links).
- ✓ A DA designates the settlement address(es) for the settlement of securities and cash (depending on technical constraints of the CSDs).
- ✓ If a settlement agent is used, the settlement address is linked to one or several Clearing Members according to the segregation rules in place locally in adequacy with the regulators' concerns.

B - Links between Position Accounts (PA) and (DA)

- ✓ The DA allows to define the aggregation level of positions, which belong to one or several Position Accounts (PA), to be settled.
- ✓ Each DA is linked to one and only one security address and one or several cash addresses (one per currency).
- ✓ The security address can correspond either to a "full" account or to a sub-account (list of all the data in the specifications) according to the possibility given by the settlement platforms.

3.1.1.2 Business Rules

A - LCH.Clearnet's policy

LCH.Clearnet intends to provide members with the maximum openness and flexibility with regards to the way in which they can monitor their settlement process.

Thus, LCH.Clearnet accepts third parties, namely payment and settlement agents, which can potentially be external to the "clearing world".

This policy allows Clearing Members to settle:

- ✓ Either directly on their own account
- ✓ Either directly on several sub-accounts (in order to segregate the flows and assets of their trading members or clients)
- ✓ Either on the account(s) of their custodian(s) = Settlement Agent
- ✓ Or a combination of the above solutions according to the kind of securities or to the clients' requirements.

Members are able to shorten the settlement chain when a re-delivery is required, by settling directly on the account designated by the final customer.

B – Operations

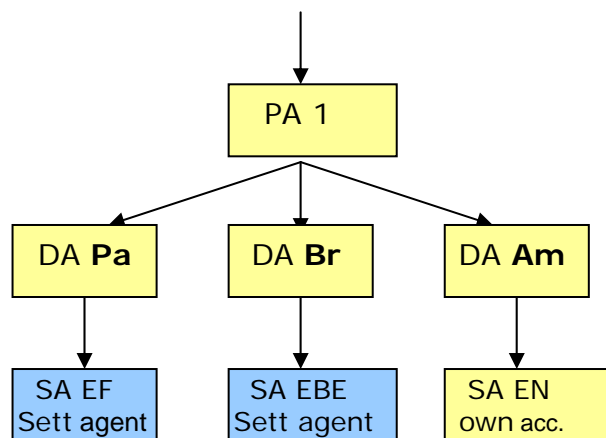
- ✓ The roll-up from PA to DA is parameterised by the LCH.Clearnet Operations Department, via the membership department, according to the demand sent by the Clearing Member.
- ✓ Members willing to sub-contract their settlement activity (all or part of it) must provide LCH.Clearnet with the characteristics of their payment or settlement agent(s)'s accounts.
- ✓ Members must also provide LCH.Clearnet with a copy of the contract which link the Clearing Member to the third party.
- ✓ In order to fully benefit from the model's features, the Clearing Member must be able to perfectly monitor the posting in the correct PA, especially when the split of positions should be done for settling where the final customer wants.

A few examples:

Example 1:

Dutch CM acting on all Euronext markets, being its Own settler locally and asking for settlement agents on cross-border operations.

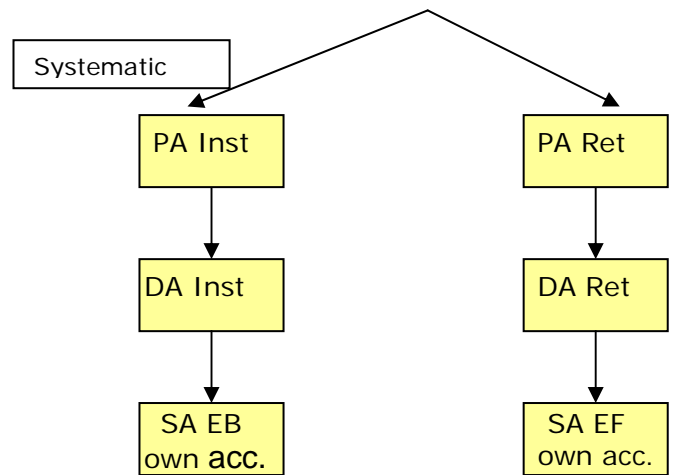
- No need for specific posting, the systematic one applied by LCH.Clearnet being sufficient



Example 2:

French CM acting on all Euronext Paris, settling its retail activity in E.F and its institutional activity in E.B.

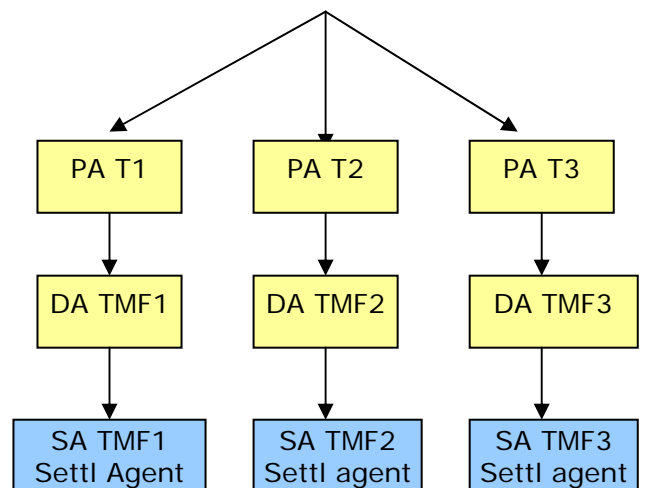
- Automatic posting in the order: at T
- Correction of posting: at T
- Internal & external corrections when available: at T+1 even T+2
(Remark: for this point, only for Brussels)



Example 3:

Belgian GCM acting on all Euronext Brussels, settling On the accounts of its trading members.

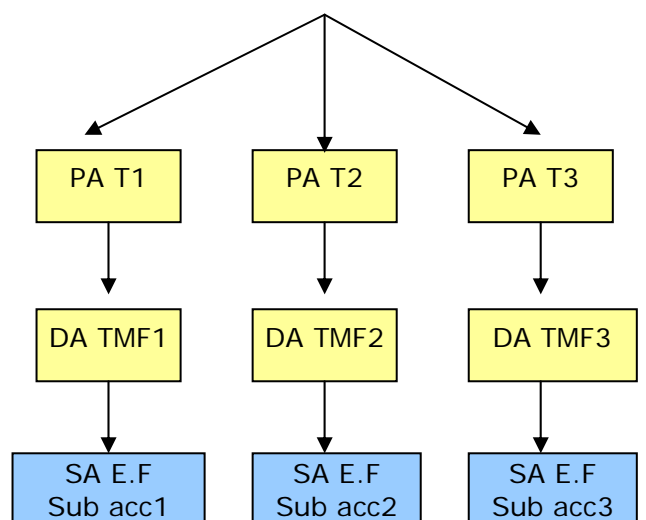
- Automatic posting in the order: at T
- Correction of posting: at T
- Internal & external corrections when available: at T+1 even T+2



Example 3bis:

French GCM acting on all Euronext Paris, settling on its Different sub-accounts (one per trading member).

- Automatic posting in the order: at T
- Correction of posting: at T
- Internal & external corrections when available: at T+1 even T+2



3.1.2 Clearing Rules

- **Reminder:** the use of a Settlement or Payment Agent is not deemed to alter the principal-to-principal relationship between LCH.Clearnet and the Clearing Member, which still remains responsible for the full performance of its obligations vis-à-vis LCH.Clearnet.
- The partial netting must be considered as an additional service. The member's commitment vis-à-vis LCH.Clearnet remains only on the net to be received or to deliver per security and per settlement date and vice versa.

3.1.2.1 Relationship between CMF/Settlement or Payment Agent²

When a Clearing Member requires the use of a settlement or a payment agent, a Power of Attorney must be given to LCH.Clearnet so that the latter is able to instruct debit or credit operations on the relevant accounts and the settlement platform operate without prior confirmation from the third party involved (principle of book entry).

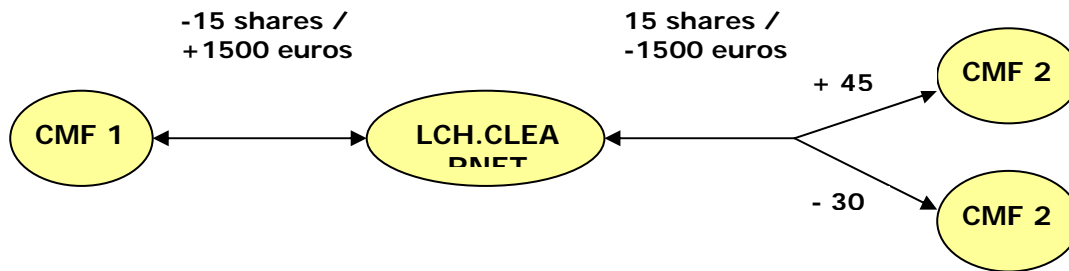
There are no relationship between the third party and LCH.Clearnet. However, prior to the launch of such externalisation services, LCH.Clearnet must validate a number of minimum provisions included in the contract between the third part and the Clearing Member, pursuant to Instruction I.4-7, such as the limits given to the members and the duty of information. Commercial provisions in the contract remain strictly confidential.

- ✓ LCH.Clearnet doesn't manage the limits given by the third party to the Clearing Members but will nevertheless make sure that the limits given are compatible with the Clearing Member's profile and the kind of activity it has.
- ✓ The limits given by the third party vis-à-vis the Clearing Member do not entail at all that LCH.Clearnet will manage such limits vis-à-vis the Clearing Member.
- ✓ It must be noted that in case of a client cash failure, the Clearing Member that has asked a third party to manage its settlement is likely to have difficulties monitoring its risks.
- ✓ Having no relationship with the Settlement Agent means that LCH.Clearnet has no information to disclose to the afore mentioned. On the contrary, the Clearing Member has information to disclose, using the appropriate tools agreed between themselves.
- ✓ At the launch of the Settlement Connect, it will not be possible to make such disclosure in place of the Clearing Member. However it is already envisaged in a second step as an additional service.

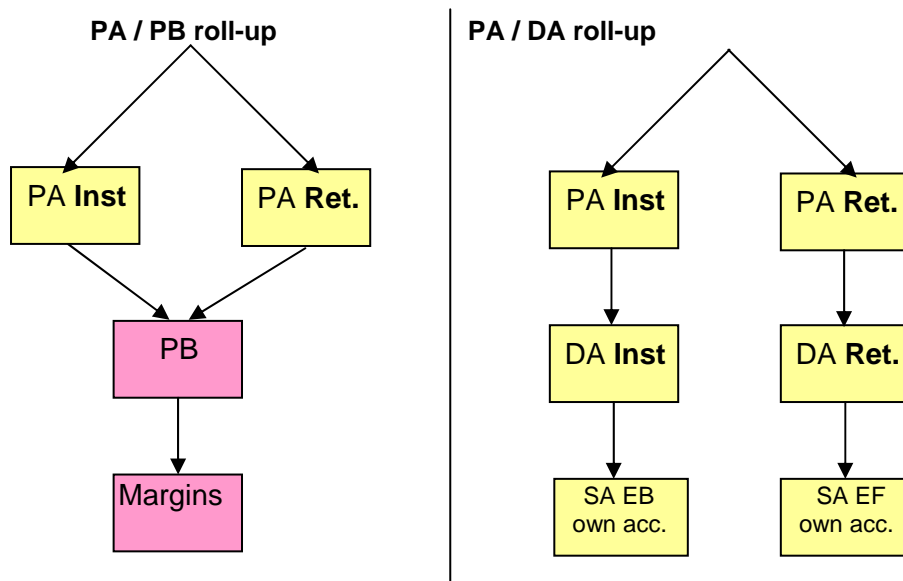
² Please refer to article 1.4.2.4 and followings of the clearing rule book and related Instruction I.4-7; http://www.clearnetsa.com/information/files/Instructions/Clearing_Rule_Book_updated_23_06_2006.pdf

3.1.2.2 Risks³

With respect to the risk monitoring, the partial netting could potentially lead to an increase of risks. Example:



The risk calculation for the CMF2 is made on its net position against LCH.Clearent (15 shares against 1 500 euros). However, the first leg (+45) is settled but the second one (-30) remains in fail. Thus, LCH.Clearent is potentially in a risky situation, being uncovered or badly covered.



However, LCH.Clearent's guarantee, in case of default of the CMF2, entails the commitment to receive 15 shares from CMF1 and to pay it 1 500 euros. The (+ 45) and (- 30) legs being considered as internal re-delivery of CMF2.

Such de-netting effects already exist since the risk calculation is made today on aggregated positions, all settlement dates mixed for a single ISIN and taking into account the counter-balanced risks on different ISIN.

³ please refer to Instruction http://www.clearentsa.com/member/files/Instructions/Instruction_1.5-4_version_anglaise_maj_23_juin_2006.pdf

LCH.Clearnet will let the roll-up linking the PA to the PB independent from the roll-up linking the PA to the DA. However, in case of liquidation, the operational procedures set up will only take the net positions into account. It will thus potentially create internal fails between the member's different accounts, fails which will not be guaranteed by LCH.Clearnet.

3.2 Continuous net settlement

Reminder

From now, the continuous net settlement is applied on all Euronext markets and DTS on the basis of one harmonised method.

3.2.1 Continuous net settlement: harmonised method

The continuous net settlement method is made up with a pre-netting (consisting in offsetting two opposite positions) and an aggregation process (consisting in aggregating positions on the same side).

The CNS is managed at the level of the D A. It allows to compensate new due positions with fails and reduces the global amount of quantities and cash to settle.

3.2.1.1 Offsetting opposite-sided positions (pre-netting process)

- ✓ Principles:
 - Pre-netting is applied on positions (quantity and amount) belonging to the same delivery account, and concerning the same security:
 - Oldest positions are offset in priority.
 - New positions rolled up in the DA to be settled the next business day
 - Unsettled or not completely settled positions remaining "open" after the update resulting from the settlement process the days before (after application of corporate events of the next business day).
- ✓ The following rules and steps are applied by the pre-netting process:
 - For quantity:
netting of opposite-sided quantities taking into account that oldest positions are netted in priority, the net security quantity is always kept on the position having the bigger security quantity irrespectively of the ISD.
 - For cash amount:
netting of opposite-signed cash amounts taking into account that oldest positions are netted in priority, the net cash amount is always kept on the position having the bigger cash amount in absolute value irrespectively of the ISD.

In order to meet the priority criterion, the algorithm tries to offset each couple of positions belonging to the same DA as follows.

With positions on a given Euronext code in the same DA numbered from POS1 to POSN, sorted by ascending intended settlement date, the algorithm tries to pre-net first POS1 (the oldest one) with every other position:

DA-POS1 with DA-POS2,
DA-POS1 with DA-POS3,
....
DA-POS1 with DA-POSN,

Then

(Remaining) DA-POS2 with (remaining) DA-POS3
 (Remaining) DA-POS2 with (remaining) DA-POS4

 Until there is nothing to offset.

Example:

Lets take the example at D evening where we have the following: 3 fails positions (POS1 to POS3) related to the same DA, the same security-id are taken in the pre-netting process with a new position (POS4) at day D (D being the current business day):

Situation for a specified DA with fails dated. From D-3, D-2, and D-1 and 1 new position due to settle at D+1

Positions	ISD	Quantity	Value EUR
POS1 fail	D-3	-40	+300
POS2 fail	D-2	-5	+10
POS3 fail	D-1	-100	+1000
POS4 new	D+1	+90	-1200

QUANTITY pre-netting		
Positions	ISD	Quantity
POS1	D-3	0
POS2	D-2	-5
POS3	D-1	-100
POS4	D+1	+50
Positions	ISD	Quantity
POS1	D-3	0
POS2	D-2	0
POS3	D-1	-100
POS4	D+1	+45
Positions	ISD	Quantity
POS1	D-3	0
POS2	D-2	0
POS3	D-1	-55
POS4	D+1	0

CASH amount pre-netting		
Positions	ISD	Value EUR
POS1	D-3	0
POS2	D-2	+10
POS3	D-1	+1000
POS4	D+1	-900
Positions	ISD	Value EUR
POS1	D-3	0
POS2	D-2	0
POS3	D-1	+1000
POS4	D+1	-890
Positions	ISD	Value EUR
POS1	D-3	0
POS2	D-2	0
POS3	D-1	+110
POS4	D+1	0

Final result at the end of pre-netting process:

Positions	ISD	Quantity	Value EUR
POS3	D-1	-55	+110

3.2.1.2 Aggregating all remaining positions for DVP instruction management

Once all opposite positions have been offset by the pre-netting process, the next steps are:

- ✓ Check if fails have to be taken into account in the buy-in process. If yes, the assigned / notified position is removed from the next process dedicated to the preparation of the final position to be sent to the Settlement Provider (see buy-in facility).
- ✓ Aggregation of all remaining positions related to the same security-id and the same DA into one unique DVP instruction. This final instruction is given a unique LCH.Clearnet reference and is associated to the settlement address corresponding to the DA.
- ✓ A new reference is created every day regardless of the number of positions processed by the pre-netting and whether or not the pre-netting process changes the quantity or the cash amount of the fail.

Example :

Positions	ISD	Quantity	Value EUR	CN reference	Settlement address
POS1	D	-100	+200	REF A (old one)	
POS2	D+1	-10	+30		
Final position generating one instruction	D+1	-110	+230	REF B (new one)	Depository-id: EF, Account-id= nnnnnn Sub-account-id= nnnn Cash account-id = nnn Etc..

3.2.2 Fails management : Fining⁴

A single harmonised fining, fair by penalising the “bad delivers”, simple to implement and easy for members to explain to the final customers to which they can pass on the fines. Policy is based on:

- The fails of delivery vis-à-vis LCH.Clearnet.

The fining calculation is made on all the guaranteed securities (equities, bonds, coupons, warrants etc...) using a single scale. No more distinction between the markets (continuous or fixing) or the liquidity (SRD or not).

3.3 Buy-in procedure⁵

As a reminder, the goals of buy-ins are:

⁴ please refer to Instruction http://www.clearnet.com/member/files/Instructions/I.8-3_VA_Maj_23032006.pdf

⁵ please refer to http://www.clearnet.com/member/files/Instructions/Instruction_I.8-2_GB_maj_23_juin_2006.pdf

- To allow LCH.Clearnet to perform its commitments vis-à-vis the buyers
 - ➔ through delivery of the securities
 - ➔ or through a cash indemnity of the fail
- To limit the “age” of the “selling” fails

and generally speaking to secure the market and to provide investors with a good feeling about its safety.

3.3.1 Regulatory Bodies concern

As well as for having an incentive fining policy, Regulatory Bodies regularly control that LCH.Clearnet makes a strong and vigilant monitoring of fails and applies the buy-ins in due time. They are keen to consider that the timeframe of the procedure must be shortened.

3.4 Non-guaranteed trades processing

3.4.1 Scope of non-guaranteed securities or trades

The non-guaranteed trades are part of the following:

- Euronext Amsterdam:
 - Mortgage backed securities
 - Non fungible
 - Numbered bond bonds
 - Dutch GTS bonds
- Euronext Brussels:
 - Belgium non fungible products (emprunts à lot)
 - Registered securities: Cofinimmo PRIV 1 & 2, Solvac NOM & VVPR
 - Marché Libre
- Euronext Paris:
 - Current non-guaranteed instruments

3.4.2 Harmonisation principles for handling non-guaranteed trades

LCH.Clearnet will limit its services (gross settlement) on non-guaranteed trades to:

- Registration in the Clearing System valuation and calculation of the settlement date
- Roll-up of the posted trades at the Delivery Account level in order to generate settlement instructions to the adequate settlement address (French segment only)
- Instruction of the settlement at trade date for Belgian and Dutch segments. As a result no position keeping will be any longer ensured in the Clearing System. Thus, corporate events will not be applied anymore by LCH.CLEARNET
- No partial posting, no partial give-up, no risk management calculation on such trades
- Reporting will be made through the current TLRP (if subscribed by the CMF) batch file and trade leg real time messages

3.4.3 Exceptions

3.4.3.1 On French segment, in addition to the above service

French securities that are not guaranteed, and trades that are flagged as non-guaranteed benefit from the following services

- Keeping of transactions in the Clearing System and SC until S-1
- Processing of CE from T.D. to S-1
- Sending of instructions to the local CSD (EF or EB)
- If both legs (Buy + Sell) are settable in EF or in EB → OK. If not: Buy in EF and Sell in EB it is respected and members have to re-instruct

3.4.3.2 Belgian nominative trades are automatically sent to EBE for settlement purposes, so that members can benefit from a full STP processing

3.5 Reporting to members (SIF & BIF)

- The batch files reporting will be proposed in order to allow reconciliation between the Clearing System positions/instructions and results of the settlement.
- The files will be provided at the end of the day after all settlement connect processes: Clearing elements, partial netting, pre-netting ... buy-in management.
- The reporting to the CMF concerns only guaranteed positions.
- Members will receive one file per Settlement Platform/Euronext segment.

Files Contents

- Final Delivery Account positions resulting from the partial netting
- Fails instructions to take into account for the pre netting after the corporate event processing and fails before corporate event process
- Positions of the current business day created by corporate event processed by the CE process module on Fails
- Positions created by CN during the day (after a reject or a buy-in)
- Final instructions cancelled due to the buy-in
- Final instructions to be settled next business day
- Sub-total net cash amount to be foreseen per depository ID, per settlement currency. This sub-total cash amount will allow the CMF to foresee its cash need for the next business day.
- Positions subject to the buy-in.

Remark Non-guaranteed trades on Euronext Paris are also on SIF files

3.6 Lending & Borrowing

Up to now no harmonisation across markets is reached. The current situation is more a continuator of local practices, but LCH.Clearnet is engaged in a consultation process regarding the maintenance of this service at Equityclear® and ESES horizons. The recommendation of the CCP is to NOT take part in any of LNB programs neither as borrower nor as guarantor.

Hereafter the various situations:

French's segment: CN borrows to a lender

Belgian's segment: CN is the "commissionaire" in the pool of lenders and guaranties the loan.

Dutch's segment: no LNB Program since the remove of legacy CNS and the launch of SC Amsterdam.

Chapter 4

Pricing of the new services

LCH.Clearnet and its members will take immediate benefits of the additional services given by Settlement Connect (SC) and the business rules agreed on. The pricing implemented are directly linked the flexibility or economies provided.

4.1 Principles

Taking into account the various existing local configurations, the additional services are different from one place to another. Nevertheless, they are linked either to:

- the use of a third party (settlement agent)
- or to the partial netting possibilities,
- or to a combination of the two above.

Thus, LCH.Clearnet only invoices additional services, it means that a “ Grand-Father clause ” (GFC) will be applied, for the ones who use the settlement agent facility or partial netting in the same way they previously access these facilities. Clearing Members only have to pay for additional new services to their current environment.

In this context, it is agreed:

- Not to invoice when there is a 1/1 **(A/A)** relation type between the Clearing Member and the settlement member (in fact the same company) for a local or cross-border delivery.
- To invoice a fix fee of € 1.00 per instruction when there is 1/1 **(A/B)** relation type between the Clearing Member and the settlement member (in fact the use of a single settlement agent). The Grand-Father clause applies:
 - In Amsterdam, since the use of a settlement agent was allowed,
 - And in Brussels, if member B is the trading member (TMF) of member A, since this functionality was offered as such before.
- To invoice a fix fee of € 1.00 per instruction when there is a **(1/N)** relation type between the Clearing Member and several settlement addresses (in fact the use of partial netting). The Grandfather clause applies in Brussels and Amsterdam if the settlement addresses correspond to the TMF accounts a GCM clears.

4.2 Pricing

To summarise:

	SETTLEMENT AGENT A / B	PARTIAL NETTING 1 / N
PARIS	<u>settlement instruction</u> : €1.00	<u>settlement instruction</u> : €1.00
BRUSSELS	<u>Settlement instruction</u> : €1.00 if different of the TMF account of a GCM €0 if settled on a TMF account of a GCM	<u>Settlement instruction</u> : €1.00 if different of the TMF accounts of a GCM €0 if settled on TMF accounts of a GCM
AMSTERDAM	<u>Settlement instruction</u> : €0	<u>Settlement instruction</u> : €1.00 if different of the TMF accounts of a GCM €0 if settled on TMF accounts of a GCM

4.3 Examples

4.3.1 First example

Let's take the first example in the 2.3.2 paragraph where a Dutch Clearing Member intends to act as a Clearing Member on all Euronext markets, thus benefiting from all the netting effects especially in terms of collateral management. It remains its own settlement agent in its home CSD, but sub-contracts the settlement function to its local custodians in Paris and Brussels, namely in Euroclear France and in EBE (or potentially in Euroclear).

In such a case, the member would be charged with € 1.00 per settlement instruction sent to its settlement agents in EF and EBE (by way of settlement agent). Of course, no additional invoice for its settlement in EN.

4.3.2 Second example

A French General Clearing Member, active only on Euronext Paris, intends to split its settlement by settling the retail activity on different sub-accounts open within Euroclear France and the institutional activity on its account open within Euroclear Bank.

According to the below scale, the member would be charged with € 1.00 per settlement instruction in EF (by way of local partial netting), and charged with € 1.00 per settlement instruction sent to EB (by way of cross-border partial netting). It would be the same invoicing if the Clearing Member had used a settlement agent within EB.

4.3.3 Third example

A Belgian General Clearing Member, active on the 3 markets, intends to settle locally in EBE according to its current practices, partial netting on its TMFs' accounts, to settle in Euroclear Netherlands on its own account and to use a settlement agent for its operations done on the French market.

It is invoiced only with € 1.00 per settlement instruction sent to EF (by way of settlement agent).

Glossary

Partial netting

Function allowing to aggregate the positions registered in one several PA into one DA. The setting is made per ISD and ISIN, and registered as well in the Delivery Account

Settlement agent

Third party who takes care of the securities settlement and / or the collateral in stocks for the account of a Clearing Member.

Payment agent

Third party who takes care of the cash settlement and / or the cash collateral for the account of a Clearing Member.

Continuous net-settlement

The continuous net settlement method is made up with a pre-netting (consisting in offsetting two opposite positions) and an aggregation process (consisting in aggregating positions on the same side).

Settlement window

Period given by Central Banks to (I) CSDs to process settlement.

Pre-Netting function

Pre-netting is applied on positions (quantities and cash amounts) belonging to the same delivery account and having the same ISIN. Oldest positions are offset in priority. The net quantity on a security and/or cash amount is kept on the position having the biggest quantity regardless the Intended Settlement Date (ISD).

Aggregation

Aggregation is performed after the pre-netting process and after the removal of fails that are included in the buy-in process. The remaining positions related to the same DA and the same ISIN are aggregated into ONE Single DVP instruction. DVP outbound assigns a unique reference to its settlement instruction containing the settlement address for its DA/ payment currency.

Partial settlement

Processed at the (I)CSD level, it is the possibility to partially settle the Clearing Member's positions. Partial settlement generated a partial fail.

BDF	Banque de France
BNB	Banque Nationale de Belgique / Nationale Bank van België / Belgian Central Bank
CCP	Central Counter Party
CE	Corporate Event
CMF	Clearing Member Firm
EBE	Euroclear Belgium (ex – CIK)
CNS	Continuous Net Settlement (Old Dutch application interface with ENL and DNB)
CSD	Central Security Depository
DA	Delivery Account
DvP	Delivery versus Payment
DNB	De Nederlandse Bank (the Netherlands Bank)
DTS	Dutch Trading System
EB	Euroclear Bank
EF	Euroclear France (ex-Sicovam)
ENL	Euroclear Netherlands (ex-Negicef / Niec)
ESES	Euroclear Settlement of Euronext zone Securities
FOP	Free of Payment
ICSD	International Central Security Depository (= Euroclear & Clearstream)
PA	Position Account
PI	Platform Interface: routine engine application developed by Euroclear Group allowing the settlement in the appropriate local CSD or International CSD

SAP	Single Application Platform
SP	Settlement provider or Settlement Platform
SSE	Single Settlement Engine
STP	Straight Through Processing
X/N BNB	Settlement platform for Belgian debt