

Collateral Management – Value Added Services

1. Introduction

This document aims to explain the facilities available to Clearing Members in order to efficiently manage collateral deposited directly with LCH.Clearnet SA. It serves as a reminder only; no new facilities have been implemented recently.

In order to guarantee net positions of Clearing Members and to be able to manage the risk of a default, LCH.Clearnet SA requires its members the deposit of initial margin and a clearing fund contribution. In order to meet these requirements Clearing Members can either use a central bank guarantee or deposit assets directly with LCH.Clearnet SA.

The facilities to manage collateral deposited directly with LCH.Clearnet are described in this document.

2. Collateral Management

LCH.Clearnet SA accepts as collateral a variety of assets, of which the main categories are:

- Cash in EURO,
- Cash in foreign currencies (GBP, USD),
- Debt securities (government bonds, corporate bonds),
- Equity securities (stocks).

A complete list of accepted collateral is included in Article 7 of LCH.Clearnet SA Instruction IV.4-1 (see also http://www.lchclearnet.com/risk_management/sa/collateral_management.asp)

Among titles deposited by the Clearing Member, certain assets will take priority over others, when the amount of margin already available within the Clearing Member's account is calculated. The default priority rule according to assets is as follows:

1. Government bonds,
2. Stocks
3. Corporate bonds
4. Cash in foreign currencies
5. Cash in EURO

In addition, when calculating the amount of margin already available within the Clearing Member's account LCH.Clearnet will also apply the following priority according to markets¹:

- MONEP (index and equity derivatives)
- MATIF (interest rate derivatives and commodities)
- SBF (cash equity)
- CLEARNET OTC (fixed income)

¹ This option is only available when implementing 'Collateral Optimisation', see 3.2.

3. Collateral Management Optimisation

When depositing collateral with LCH.Clearnet SA, a Clearing Member has to indicate a sub account (house, client, market maker)² for which the collateral is allocated. The Clearing Member has to decide to dedicate the titles to cover positions for a particular sub account; any surplus in these titles will not cover positions in another sub account.

In addition, the Member has to indicate if the collateral deposited for a particular sub account will be used to cover positions for all markets or a particular market.

3.1 Per Market

If a Member chooses to dedicate certain assets for a particular sub account to a particular market, these assets will only cover positions on this particular market. Positions of this sub account in other markets require additionally deposited assets dedicated specifically to each of these markets.

Example:

The margin call for a member X on value date D is as follows:

Cash Equities Market – House sub account: EUR 3.000.000

Derivatives Market – House sub account: EUR 0

With a deposit of EUR 10.000.000 in French bonds on Cash Equities Market for House sub account, the position of the member will be covered with EUR 3.000.000 French bonds and EUR 7.000.000 is available to cover the margin call, but only on the Cash Equities Market.

If on D+1 the member is called for:

Cash Equities Market – House sub account: EUR 3.000.000

Derivative Market – House sub account: EUR 2.000.000

LCH.Clearnet cannot use EUR 7.000.000 of French bonds which are available for the Cash Equities Market, because this deposit has been made “per market”.

3.2 All Markets – Optimisation of Collateral

Clearing Members have the possibility to ‘Optimise Collateral’ by releasing the dedication of assets to a particular market. On request of the member LCH.Clearnet SA will use certain assets to cover positions for a certain subaccount (house, client or market maker) on all markets.

The markets concerned are:

- MONEP (index and equity derivatives)
- MATIF (interest rate derivatives and commodities)
- SBF (cash equity)
- CLEARNET OTC (fixed income)

Please note that the POWERNEXT market is excluded from the possibility to ‘Optimise Collateral’. In addition, contributions to the Clearing Fund are not part of the facility and have to be allocated per market and subaccount.

² In C21 terminology a ‘Subaccount’ is referred to as ‘Origin’.

See the following example of the Global Financial Statement according to the ‘Optimisation of Collateral’ facility.

Example:

The margin call for a member X on value date D is as follows:

Cash Equities Market – House sub account: EUR 3. 000. 000

Derivatives – House sub account: EUR 0

*With a deposit of EUR 10. 000. 000 in French bonds on “**all markets**” - House sub account, the position of the member on the Cash Equity Market will be covered with EUR 3. 000. 000 in French bonds and the member still has EUR 7.000. 000 available to cover positions for all other markets under House sub account.*

If on D+1 the member is called for:

Cash Equities Market – House sub account: EUR 3. 000. 000

Derivatives Market – House sub account: EUR 2. 000. 000

*The system **can** use EUR 7. 000. 000 of available French bonds to also cover positions on the Derivatives market, as the deposit has been made on “**all markets**” House sub account.*

4. Substitution of Securities

When depositing collateral directly with LCH.Clearnet SA Clearing Members are free to choose between any accepted assets and substitute one asset type for another or replace certain securities for others. For each deposit or return of collateral held in securities the Clearing Member must notify LCH.Clearnet, specifying the allocation of the collateral according to market and subaccount.

If a Clearing Member requests to substitute deposited securities for other securities on the same day an intraday cash call is required. The procedure is as follows:

On the previous day (D-1):

1. The Clearing Member has to send two faxes to LCH.Clearnet Treasury Department (fax number +33 1 70 37 65 06) specifying the withdrawal respectively the deposit with value date D before 16.00 p.m. CET. See the fax forms to be used in French (http://www.lchclearnet.com/Images/formulaire%20dépôt%20titres%20Français_tcm6-50295.pdf) in English (http://www.lchclearnet.com/Images/formulaires%20titres%20anglais_tcm6-50294.pdf).

On value date (D):

1. The Clearing Member will deposit the margin value of the securities to be withdrawn in cash EURO with LCH.Clearnet SA between 10.00 am CET and 10.30 am CET.
2. Securities to be substituted will be settled with the Central Securities Depository before 12.00 am CET.
3. The margin value in cash Euro will be credited with the Clearing Member before 14.00 p.m. CET.

In case securities settlement will not be successful before 12.00 am CET, the cash value will not be credited with the Clearing Member on D and the Clearing Member will be credited for the cash value on D+1.

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