

> LCH.Clearnet Improves Euro Area Settlement Netting Efficiency

New Netting Algorithm Delivers Reduction in Cross-border Settlement Flows

LCH.Clearnet is pleased to advise RepoClear participants that it is expected, following the introduction of its new cross-border settlement netting algorithm for European government bonds, that cross-border settlement flows will be significantly reduced. The netting algorithm, which has been endorsed by the Fixed Income Product Advisory Group (PAG), will be upgraded on 23 June 2008, with effect on settlement flows for value 24 June 2008. RepoClear participants are not required to take any action or development regarding this implementation.

The existing cross-border settlement netting algorithm, which was developed in conjunction with the market when RepoClear first went live in 1999, is based on the principle that a participant may only be asked to deliver to an I/CSD if they have traded with a counterparty that uses that I/CSD. This was a feature that was considered to be relevant at the time and, in effect, was designed for an environment where trading was based around the matching of trades executed purely on a bilateral basis with a known counterparty.

One of the consequences of this model was that, in certain circumstances, a participant could be asked to take delivery in one I/CSD and make delivery onto another I/CSD in the same bond on the same settlement day. Importantly though, with the emergence and establishment of electronic trading over recent years, participants in this anonymous environment no longer have the ability to choose their counterparty. Hence, the existing netting algorithm is now being updated.

A new netting algorithm has been developed that means that from implementation any deliverer into RepoClear can now be asked to deliver on a cross border basis. However, participants will be asked to deliver cross border in an optimal fashion, in such a way as to minimise the number of cross border settlements.

It is anticipated that, based on modelling of recent settlement flows, this move will reduce the number and value of cross border settlements significantly from current levels, with a commensurate reduction in settlement risk and costs for all participants.

Please find attached a schematic explaining the current legacy arrangements compared to the new model. In the event that you have any questions or comments regarding this change, please can you contact my colleague Nick Maggs on the details below.

Best regards

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FOR FURTHER INFORMATION, CONTACT:

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Impact of the new RepoClear cross-border netting algorithm

