

## **LCH.Clearnet implements industry-leading default management process for bonds and repos**

### ***Unique loss allocation arrangements designed in close collaboration with leading Fixed Income market participants***

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LCH.Clearnet Ltd, the multi-national clearing house's UK-based CCP, has put in place best-in-class systemic risk mitigation for bonds and repo cleared through its RepoClear service by implementing formal loss allocation arrangements. LCH.Clearnet Ltd's loss allocation arrangements, which are unique to the bond and repo market, were designed in close collaboration with leading fixed income market participants.

In the event of a RepoClear member default, where exceptional losses have been incurred in excess of the financial resources available, loss allocation ensures the ongoing operation of other LCH.Clearnet clearing services by introducing a further level of protection to the default waterfall.

The introduction of loss-allocation is the latest example of LCH.Clearnet's commitment to delivering world-class risk management capabilities and to supporting the objectives of regulators globally to strengthen governance and corporate structures at CCPs to ensure financial stability. In addition, through a dedicated default management group, the arrangement formalises the close involvement and commitment of clearing members during any default management situation. In a default scenario, LCH.Clearnet Ltd would benefit from the expertise of senior trading representatives from clearing member firms working alongside LCH.Clearnet Ltd executives to liquidate open bond and repo positions.

John Burke, Head of LCH.Clearnet's Fixed Income business, said: "The changes we have made to the RepoClear default waterfall highlight our commitment to providing world-class risk management solutions to the markets that we clear. Our clearing members overwhelmingly supported this development, with 98% of voting clearing members in favour of the scheme. This confirms the importance of our RepoClear service's resilience and highlights LCH.Clearnet's position as the industry-leader for risk and default management methodologies."

The loss allocation arrangements follow changes introduced in August 2012 to separate the RepoClear default fund in London from LCH.Clearnet Ltd's cross-asset class mutualised default fund. Both initiatives have been approved by the Financial Services Authority.

#### **About LCH.Clearnet**

The LCH.Clearnet Group is a leading international clearing house, serving major exchanges and platforms as well as a range of OTC markets.

LCH.Clearnet's world-class risk management framework provides the markets with exceptional levels of protection. Both the soundness of its risk management approach and the resilience of its systems have been proven in recent times. As demand for robust clearing services continues to grow, LCH.Clearnet is committed to setting and maintaining the highest standards across all asset classes cleared.

For more information on LCH.Clearnet visit [www.lchclearnet.com/media\\_centre](http://www.lchclearnet.com/media_centre)

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