

Press Release

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LCH.Clearnet set to clear Coal Swaps

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LCH.Clearnet Ltd (LCH.Clearnet) is set to launch clearing of OTC coal swap contracts. The service is a natural extension to LCH.Clearnet's market leading OTC offering and complements the successful freight service, which has over 5 years proven experience and clears 85% of all dry cleared volumes.

Coal is an integral source for power generation and rising energy demands continue to drive consumption. Coal swap contracts manage risk against volatile price movements. Clearing these contracts will increase trading capacity and reduce concerns over counterparty risk, enabling further growth of the market.

The contracts, which will be launched on 13 September, will be monthly cash settled swaps based on Rotterdam in the Netherlands and Richards Bay in South Africa and will be traded in multiples of 1,000 tonnes. The contracts will be settled against the underlying API 2* and API 4* index prices as published in the Argus/McCloskey's Coal Price Index Report.

Isabella Kurek-Smith, director, energy and freight said: "With the coal market continuing to grow rapidly, introducing coal swaps to our broad range of existing OTC commodities, which include emissions, freight and iron ore swaps, is a valuable addition. Providing our specialist OTC clearing services will attract more players, which will in turn enhance liquidity and transparency and support the ongoing development of the international coal derivatives market."

"The international coal market depends on the API 2 and API 4 coal indexes for spot, term and derivative contracts" said Adrian Binks, chairman and chief executive of Argus Media. "The vast majority of the world's traded coal derivatives are settled against the API 2 and API 4 indexes so LCH.Clearnet has selected the market's leading benchmarks on which to base its new swap contracts. Argus has over forty years' experience of bringing transparency to the energy markets so we are delighted that LCH.Clearnet is using our API 2 and API 4 indexes to help bring more competition to clearing. We wish them every success with their new services".

"The decision by LCH.Clearnet to launch a clearing service for the coal swap markets that are settled against the API 2 and API 4 indexes further emphasises the importance of these products to the international coal markets. It also points to the potential of rapidly increasing liquidity in these API 2 and API 4 related markets", said John Howland, Publisher, IHS McCloskey. "IHS McCloskey was one of the first to launch international coal indexes nearly two decades ago and today the vast majority of the world's internationally traded coal derivatives use the API 2 and API 4 indexes for price settlement."

Argus Media

Argus is a leading provider of price assessments, business intelligence and market data on the global crude and products, natural gas, coal, electricity, emissions and transportation industries. It is headquartered in London and has offices in Houston, Washington, New York, Portland, Calgary, Johannesburg, Dubai, Singapore, Tokyo, Beijing, Sydney, Moscow, Astana, Kiev, Santiago and other key centres of the energy industry. Argus was founded in 1970 and is a privately held UK-registered company. Learn more at www.argusmedia.com.

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About LCH.Clearnet

LCH.Clearnet is the leading independent clearing house group, serving major international exchanges and platforms, as well as a range of OTC markets. It clears a broad range of asset classes including: securities, exchange traded derivatives, energy, freight, interbank interest rate swaps and euro and sterling denominated bonds and repos; and works closely with market participants and exchanges to identify and develop clearing services for new asset classes.

A clearing house sits in the middle of a trade, assuming the counterparty risk involved when two parties (or members) trade. When the trade is registered with a clearing house, it becomes the legal counterparty to the trade, ensuring the financial performance; if one of the parties fails, the clearing house steps in. By assuming the counterparty risk, the clearing house underpins many important financial markets, facilitating trading and increasing confidence within the market.

Initial and variation margin (or collateral) is collected from clearing members; should they fail, this margin is used to fulfill their obligations. The amount of margin is decided by the clearing house's highly experienced risk management teams, who assess a member's positions and market risk on a daily basis. Both the soundness of the risk management approach and the resilience of its systems have been proven in recent times.

LCH.Clearnet is regulated or overseen by the national securities regulator and/or central bank in each jurisdiction from which it operates.