

General Members Meeting

Single Order Book, ESES Stream 3 & LCH.Clearnet Flux Bourse

First Test Period Feedback Detailed Testing and Launch Arrangements

- Amsterdam: 30 September 2008
- Paris: 01 October 2008
- London: 02 October 2008
- Brussels: 03 October 2008

Agenda

First Test Period Report

Detailed Testing Plan

Launch Strategy

Fallback Scenario

Next Steps

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First Test Period Report (1/4)

- Good participation
 - 38/52 CMFs participated in launch weekend
 - 32/52 CMFs regularly tested daily processes
 - *Thanks for your active participation!*
- Lots of questions
 - 57 questions resulting from launch weekend and daily processes
 - Response in 4 days on average
- Type of the questions demonstrated very good level of member understanding on Clearing ESES impact

First Test Period Report (2/4)

- 17 issues included in the market list
 - 7 root causes identified
 - 3 linked to testing environment
 - ⇒ Cannot exist in production
 - ⇒ Manual Input Errors
 - ⇒ Referential data synchronisation
 - 1 linked to length of internal validation processes
 - 3 functional errors
 - Variable impact for members depending on account structure

First Test Period Report (3/4)

Launch Weekend Issues:

- ⦿ Systematic transfer to CMF default Delivery Account
 - ⦿ Mitigation:
 - ⇒ Increased automation
 - ⇒ Fails will be transferred to TMF/CMF level per CSD
 - ⇒ Define rules for transfer for some Members

- ⦿ Late delivery of files (7 hours)
 - ⦿ Reminder: Special timetable for launch

First Test Period Report (4/4)

Daily Process Issues:

- Settlement rejection
 - Registered Belgian & Dutch Securities
 - Market of Reference different to CSD of reference
 - ⇒ Resolved
- Reference data out of sync with partners
 - ⇒ Close communication with NYSE.Euronext & Euroclear
 - ⇒ Focus testing on subset of securities (400+)
- Derivatives
 - ⇒ Will be part of the second test period

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Detailed Testing Plan (1/4)

Monitored test scenarios

TRADES										TESTING SCHEDULE												
Trade II°	Test case II°	Test case	Clearing segment	Trading instrument	ISIN code	Qty	Price	Origin	Buy/Sell code	OCTOBER 2008												
										9	10	11	12	13	14	15	16	17	18	19	20	
										SOB -3					SOB -1	SOB launch	ESES -2	ESES -1	ESES Launch	ESES Launch	ESES	
1	1	Market of reference is PARIS -> Currency conversion on positions	AMSTERDAM	US1941621039	COLGATE PALMOLIVE	2000	46\$	C	B		Trade					Fail		Pos. Trans.		Check SIF		
2	2		PARIS	NSCFR0COLGP3		1000	51 €	C	S								Trade		New pos.			
6	3	Market of reference is AMSTERDAM -> Qty type change UNT to FMT	AMSTERDAM	NL0000118594	ING GROEP 6 1/8% 11	2000	104%	C	S							Trade		New pos.		Check SIF		
7	7		PARIS	NSCFR0IG61P6		3	103%	C	B		Trade						Fail		Pos. Trans.			
8	4	Market of reference is BRUSSELS	BRUSSELS	BE0003853703	MONTEA	2000	34 €	C	B							Trade		New pos.		Check SIF		
9	9		PARIS	NSCFR0MONTP1		1000	31 €	C	S		Trade						Fail		Pos. Trans.			
10	5	Market of reference is AMSTERDAM and CSD of Reference is Euroclear France	AMSTERDAM	DE0001346955	RB 0%26	5000	40%	C	B		Trade					Fail				Check SIF		
11		Market of reference is PARIS and CSD of Reference is Euroclear Belgium	PARIS	BE0160342011	COIL	5000	7,80 €	C	S		Trade					Fail						
12		Market of reference is BRUSSELS and CSD of Reference is Euroclear France	BRUSSELS	FR0000021842	BEL20 MASTER UNIT	5000	35 €	C	B		Trade					Fail						
13	6	Foreign currency, the CSD of reference becomes Euroclear Bank	AMSTERDAM	ANN524271486	LEVERAGED CAP A	5000	233\$	C	S		Trade					Fail				Check SIF		

Detailed Testing Plan (2/4)

Monitored tests at the clearing level

- Same principles as the 1st Launch rehearsal
- Members to check their balances in **EBE** and ENL to assure fails returns
- LCH.Clearnet will inject trades for Members for each of the test cases
 - **One trade/test case will be injected per Individual Clearing Member**
 - **Two trades/test case will be injected per General Clearing Member**
 - **TMFs proposed to Members mid September or up to Members' choice**
 - **TMFs have a valid membership in a "pre-ESES" situation**
- Additionnal test case foreign currencies on the Dutch cash segment
 - **Kas Bank not in the scope of testing in a "pre-ESES" situation but positions will be considered failed**
 - **To validate the transfer of fail position to the dedicated Euroclear Bank's settlement address**

Detailed Testing Plan (3/4)

Free tests at the clearing level

- Multi listed securities selected with balances initialised
- Securities extracted from the referential snapshot of 11 April ⇔ referential in test 18 July (for the specified securities)
- List of securities selected for free tests available on Euroclear’s website
- Only COE scheduled by Euroclear applied on test platform

Event before/after ESES stream 3	Multi listed securities impacted in production	TO GET FAILS		TO GET SETTLEMENT	
		- Balances set to 0 at EF and EB - Balances to be checked and managed by Members in ENL and EBE C14to get fails		- Balances set to 1000 in EF and EB - Balances to be checked and managed by Members in ENL and EBE to get settlement	
		ISIN Code	Description	ISIN Code	Description
Change of currency	< 15	AN8068571086	SCHLUMBERGER	JP3973400009	RICOH
Change of qty type FMT to UNT	< 10	FR0000481616	SNCF 5 7/8%10	FR0000491367	EDF 5%09
Change of qty type UNT to FMT	< 15	NL0000288918	Vastened Retail	IE00B14X4M10	iShares MSCI North America
CSD and Market of reference not on the same place	<5	XS0087184312	DRB 5 1/4%09	XS0087426853	BANK VOOR NEDL GEMEENTEN N.V. OBL5 3/8%98-13
Multi listed sec. where market of reference becomes Paris	< 40	FR0000062796	Vranken Pomery	FR0000133308	FRANCE TELECOM
Multi listed sec. where market of reference becomes Brussels	< 20	BE0003870871	Banimmo SA	BE0003801122	FORTIS
Multi listed sec. where market of reference becomes Amsterdam	< 100	GB00B0CTWC01	ETFS Brent Oil	NL0000289213	WERELDHAVE

Detailed Testing Plan (4/4)

SOB Derivatives

- The derivatives and cash test platforms are configured to allow free tests on option exercises
- The underlying security of a multi traded equity option becomes mono traded from the launch of SOB (15 October)
- Example:

NAME	AMSTERDAM OPTION CLASS	BRUSSELS OPTION CLASS	UNDERLYING SECURITY
FORTIS	FOR	FRB	BE000381181 Market of reference: Brussels

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SOB / ESES Launch Processing Overview

Previous month/week	Tuesday	Wednesday	Thursday	Friday	Saturday/Sunday	Monday
	End of day ↓ SOB switch over	SOB	ESES - 2	ESES - 1 ↓ End of day		ESES
<ul style="list-style-type: none"> ✓ End of previous month (30 Oct.) Multi-listed securities removed from SRD (Deferred Settlement). 2 securities. ✓ Previous Week EOC and NYE Green light 	<ul style="list-style-type: none"> ✓ Referential update in Nyse-Euronext: multi-listed securities will be non-negotiable on the market they quit ✓ Foreign Currencies will change quotation group ✓ Update Derivates data referential ✓ New ESES Position Account activation 	<ul style="list-style-type: none"> ✓ New positions (after SOB switch over): <ul style="list-style-type: none"> • received in new ESES position accounts • Will be sent to ESES settlement platform starting from the Monday (accounting day) following the Go live ✓ Instructions to be settled and Fails until ESES-1 will be sent to the previous CSD. 		<ul style="list-style-type: none"> ✓ Green light from EOC ✓ LCH.Clearnet ESES software release ✓ Referential update from Nyse-Euronext: Change CSD of reference ✓ New ESES Delivery account activation in LCH. Clearnet <p style="text-align: center;">ESES switch over</p>	<ul style="list-style-type: none"> ✓ Fails migration: <ul style="list-style-type: none"> • Currency conversion • DA transfer due to change of CSD • DA transfer due to account structure change • UNT/FMT conversion 	<ul style="list-style-type: none"> ✓ First day in full ESES and SOB

SOB / ESES Launch Operational Overview

Previous week	Tuesday	Wednesday	Thursday	Friday	Saturday	Sunday	Monday
<p>ESES-12 EOC & NYE green light</p> <p>ESES-8 (Test only) Trade injection for monitored "fails" tests</p>	<p>End of day</p> <p>SOB switch over</p> <p>New ESES 3 Position Account activation</p>	<p>SOB</p> <p>Trade injection for monitored tests</p> <p>Positions to be settled and Fails until ESES-1 will be sent to the previous CSD</p> <p>PR3 / New position accounts</p>	<p>ESES - 2</p> <p>Positions to be settled and Fails until ESES-1 will be sent to the previous CSD</p> <p>PR3 / New position accounts</p>	<p>ESES - 1</p> <p>End of day</p> <p>EOC green light</p> <p>Platform upgrade to ESES, data referential change and Delivery account activation</p> <p>ESES switch over</p> <p>Migration</p> <p>PR3 / New position accounts</p>	<p>Migration</p> <p>SIF/BIF dissemination</p> <p>Pilot Members Control and check</p> <p>24:00 cet Conf call Pilot Members</p>	<p>Members Control and check</p> <p>12:00 cet Expected Members Readiness Reporting</p> <p>14:00 cet Conf. call Clearing WE closing</p>	<p>ESES</p> <p>First day in full ESES and SOB</p>

Dedicated roll out communication will be sent to members 2 weeks prior to ESES switch-over

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Fallback Procedures: Scope (1/5)

Although the fallback scenario is unlikely to happen, a procedure has to be foreseen.

- Fallback only concerns positions processed from Wednesday (SOB implementation) until Friday preceding ESES go-live
- Only delivery accounts will be rolled back to pre-ESES situation

Fallback Procedures: Business Rules (2/5)

- First Business rule:

The CMF is active, and has a delivery account (DA), on the segment where instructions have to settle after the fall-back

▶ **Instruction will be routed to the appropriate DA of the relevant settlement segment**

- Second business rule:

The CMF is not active on a segment or, has no delivery account, after the fall-back, and the CMF has a delivery account in Euroclear Bank

▶ **Instructions on this segment will be sent to the account in Euroclear Bank**

- Third business rule

If the CMF has no DA on a segment after the fall-back and the CMF has no account in Euroclear Bank

▶ **CMF is required to provide LCH.Clearnet with a SA of another Clearing Member which will be associated with a specific DA**

Fallback Procedures: Implementation (3/5)

- Friday evening
 - No release of Clearing system ESES ON
 - Integration of the new NYE data referential file, restoring the old Market of Reference (MoR) on securities
 - Delivery accounts roll back
- Saturday morning
 - Fallback procedure execution

Fallback Procedures: Implementation (4/5)

- Specific DA (roll back) will be parameterised prior the launch with the SA given by the CMF
- Only 7 members are not active on 3 segments and have no account structure in Euroclear Bank

Members concerned are requested to sign a declaration of compliance

- Remaining positions will be transferred by LCH.Clearnet operations department

Fall-Back Procedures: Points of Attention (5/5)

- **The fallback would require multiple transfers of positions and would therefore delay LCH.CN processing over 3 days**
 - Risk for LCH.Clearnet files not to be processed in the usual overnight pert
- **Foreign Currencies**
 - No Fall-back is expected for Foreign Currencies

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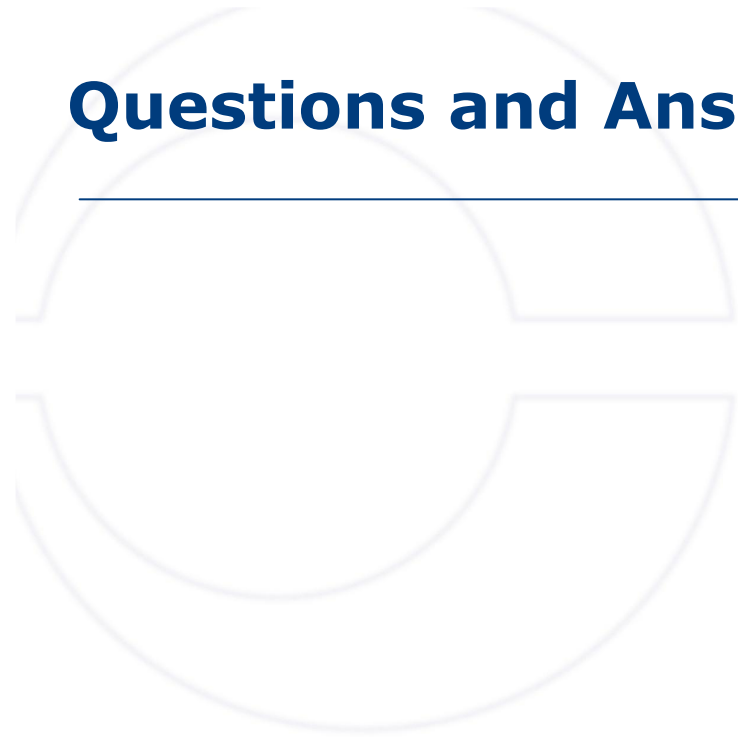
Next Steps

- Members to LCH.Clearnet
 - To define fail transfer rules during launch weekend
 - Information relating to fallback scenario
 - Return account structures for production launch to LCH.Clearnet by mid October
 - Identify Member contacts (email & SMS) for launch rehearsal weekend

- LCH.Clearnet to Members
 - Send InfoFlashes:
 - Launch Rehearsal weekend with detailed actions and timings
 - Black Window period: 2 weeks before launch, 2 weeks after
 - Collection of members contacts for weekend
 - Send emails:
 - Settlement Agent Agreement form
 - Production account structures for validation

- Documentation available: www.lchclearnet.com/projects/eses.default.asp

Questions and Answers



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