

# Project Clearing



## Members presentation

Paris - 20 March 2008

London - 25 March 2008

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Equiduct business market model (presented by Equiduct)

Structure and Organisation – Cash Market

Equiduct implementation in LCH.Clearnet SA

Example of account structure – Equiduct's Customer

How to clear this new market (LCH.Clearnet and Equiduct)

Project's road-map

LCH.Clearnet Contacts

Questions and answers



## **Connection to LCH.Clearnet SA for clearing of Equiduct Trading trades**

**Willy Van Stappen – Equiduct COO  
March 2008**

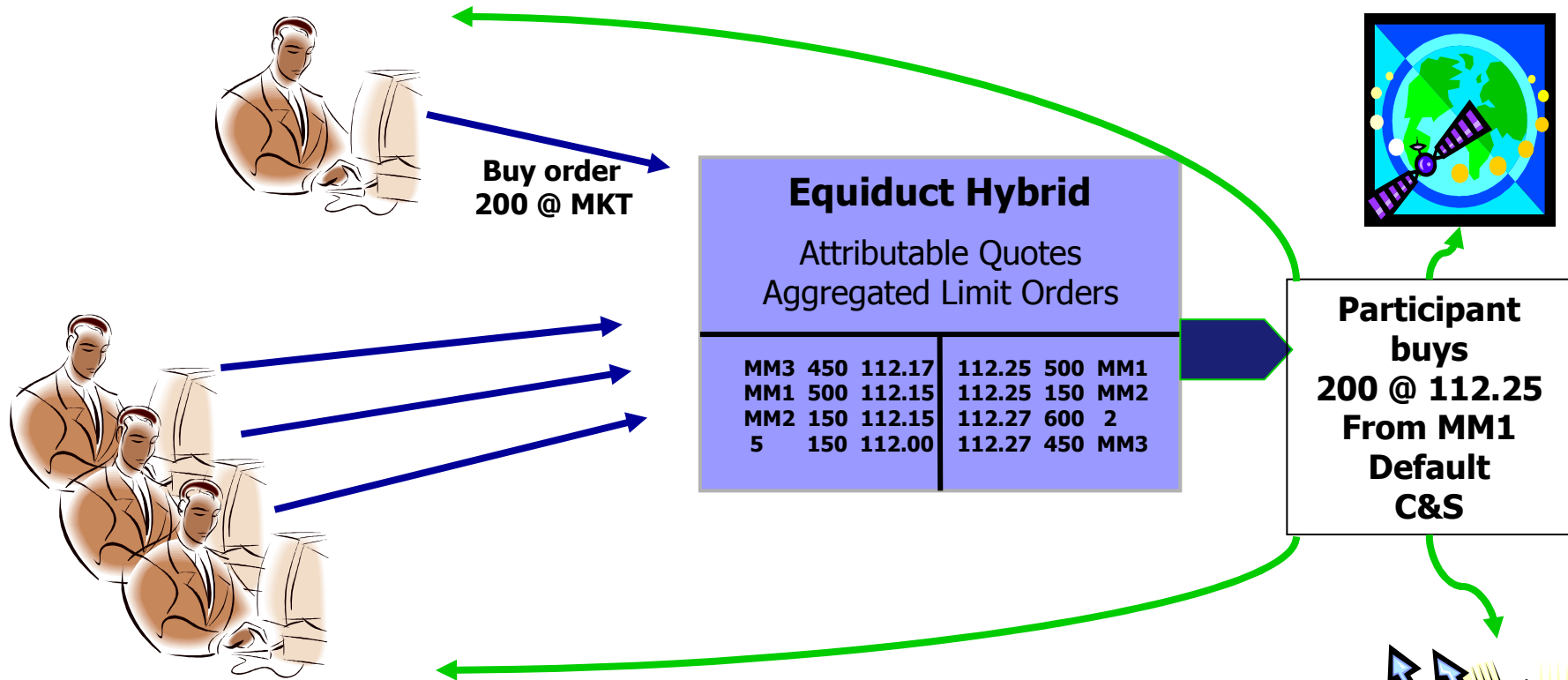
## Equiduct Unique Characteristics

- **A true Pan-European Regulated Market**
  - Boerse Berlin new market segment for European equities
  - Single German Regulator
  - Single Rule Book
  - Open Standards for Connectivity
  - Access to Standard Domestic Clearing & Settlement
- **Low Cost Flat Fee Structure**
  - All Participants are charged the same low fee
- **MiFID compliant Best Execution service**
- **Efficient alternative for Systematic Internalisation**
- **Hybrid Book: seamlessly combining equity orders with firm 2-sided quotes**

## Equiduct Technology

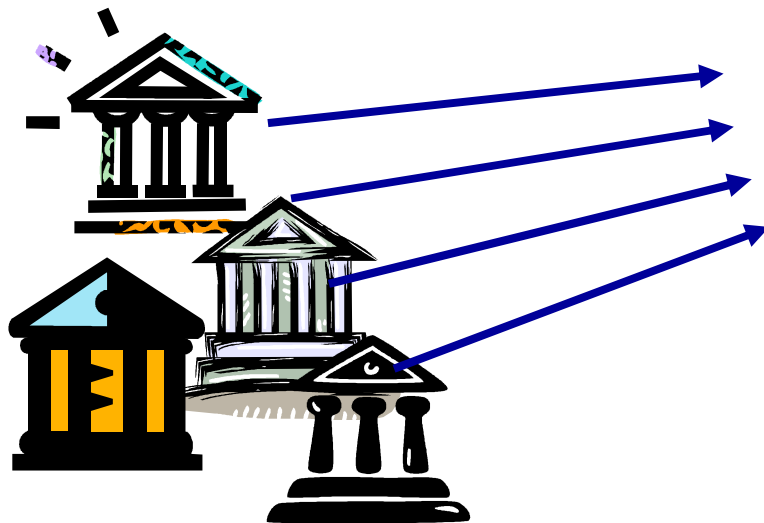
- **Proven**
  - 100% uptime in Nasdaq Europe and Nasdaq Deutschland
  - Nasdaq US licensed technology for use in North America
- **Very Low Latency**
  - Roundtrip time between order receipt and execution < 10ms
  - Latency remains stable under loads of > 10,000 business transactions/second
  - Leverages existing Datacenter and Networks used by Domestic Exchanges / Data Carriers / Infrastructure providers
  - Proximity solutions offered to optimise transactional and market data throughput
- **Decentralised architecture gives cost efficient scalability through deployment of latest multi-core hardware**
- **Supports multitude of FIX dialects including 4.4 FPL ECN/Exchange standard**

## Hybrid Book



- **Step 1: Market Makers post firm 2-sided quotes, Participants enter limit orders**
- **Step 2: Equiduct reports Pre-trade Hybrid Book**
- **Step 3: Participant takes offer price**
- **Step 4: Equiduct confirms trade back to Market Maker and Participant**
- **Step 5: Equiduct reports post trade and sends trade to CCP**

## Equiduct Virtual Book and VBBO



Equiduct Hybrid					
Attributable Quotes					
Aggregated Limit Orders					
MM3	450	112.17	112.25	500	MM1
MM1	500	112.15	112.25	150	MM2
MM2	150	112.15	112.27	600	2
5	150	112.00	112.27	450	MM3
XETR	200	112.19	112.20	150	XLON
CHIX	250	112.19	112.24	500	XPAR
XLON	180	112.19	112.24	450	XETR
MM3	450	112.17	112.25	500	MM1
XPAR	2000	112.16	112.25	150	MM2
MM1	500	112.15	112.27	600	2
MM2	150	112.15	112.27	450	MM3
5	150	112.00	112.28	250	CHIX

Previous close 113.95

SMS = €35,000 = 307

VBBO = 112.1900 –  
112.2205



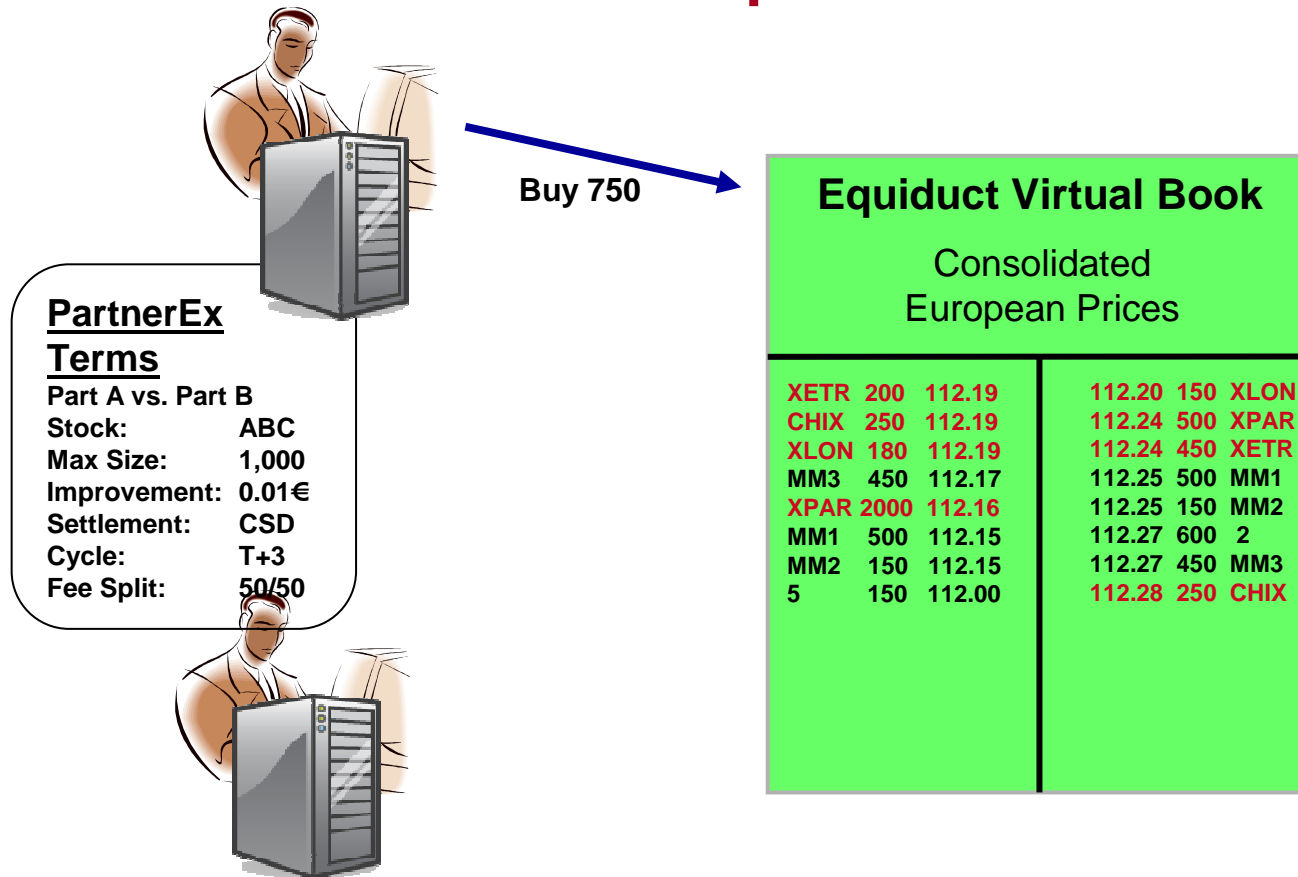
Previous close 113.95

RMS = €7,500 = 66

VBBO = 112.1900 –  
112.2000

- Step 1: Equiduct Hybrid Book contributes to the Consolidated Equiduct Virtual Book
- Step 2: All eligible RM, MTF and SI prices are imported
- Step 3: Equiduct calculates and reports VBBO for Standard and Retail Market Sizes

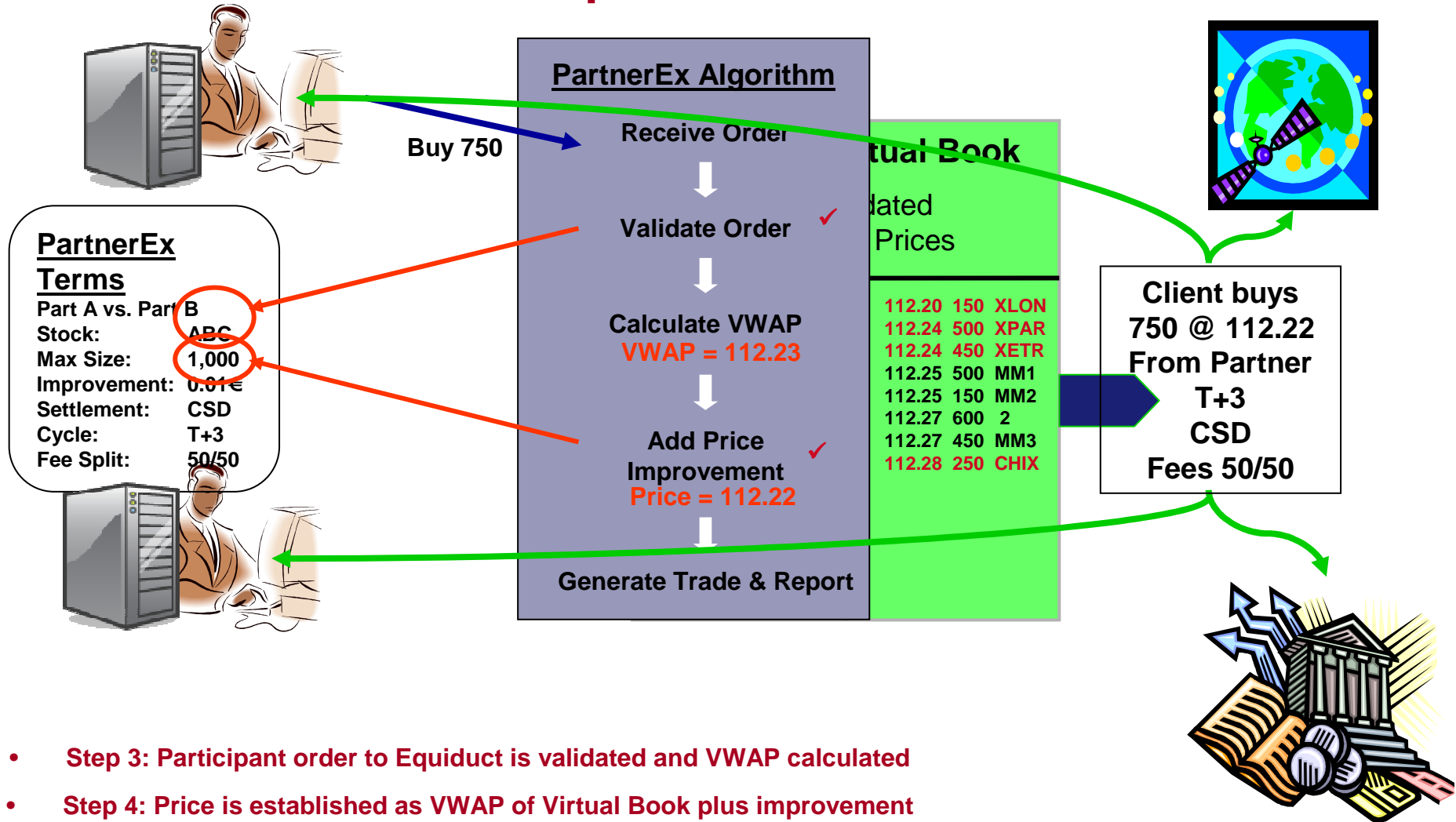
## Simple PartnerEx



- **Step 1: Equiduct Virtual Book is the base for PartnerEx**
- **Step 2: Participants establish Equiduct PartnerEx relationship and terms**



# Simple PartnerEx



- Step 3: Participant order to Equiduct is validated and VWAP calculated
- Step 4: Price is established as VWAP of Virtual Book plus improvement
- Step 5: Single trade. Execution fees split. Reporting as per Participant instructions

## PartnerEx

- PartnerEx is a **unique bilateral trading facility** offering access to best prices from committed PartnerEx Providers (PP)
- Equiduct continually consolidates **real-time market depth data** from liquidity pools into a virtual order book
- Orders sent to PartnerEx for execution at the **VWAP** of this virtual order book, plus **any improvement** offered by the PP
- PartnerEx offers a **simple, low-cost solution for MiFID best execution** requirements
  - Flat execution fee
  - PartnerEx Customer and Provider can agree how fee is split
  - Clearing & settlement can be customised

## PartnerEx Advantages

- **Price**
  - Volume-weighted average price for the given order size is best of any other execution venue
  - Price Improvement makes it the de-facto best price
- **Cost**
  - A single execution, if required, using prices from different execution venues
  - Flat execution fee
  - Customisable Clearing & Settlement gives maximum flexibility
  - Fee split negotiable
- **Speed**
  - Order executed within 10 ms
  - Avoids overhead of smart order routing
- **Likelihood of Execution and Settlement**
  - Liquidity is irrelevant as PartnerEx provider commits to execute agreed size at the best price
  - Clearing & Settlement options vary from CCP to on-book transfer to optimise post-trade costs and settlement efficiency

## Equiduct Clearing & Settlement - Rationale

- **Cleared Cash Markets**
  - Central Counterparties (CCP)
  - Equiduct will use the home market CCP where our Participants are already represented
- **Non Cleared Cash Markets**
  - Equiduct will appoint a single Settlement Agent (SA) per Issuer CSD
  - Equiduct will appoint as SA a Custodian that
    - Already represents Equiduct Participants
    - Has access to a large number of Pan-European Issuer CSDs

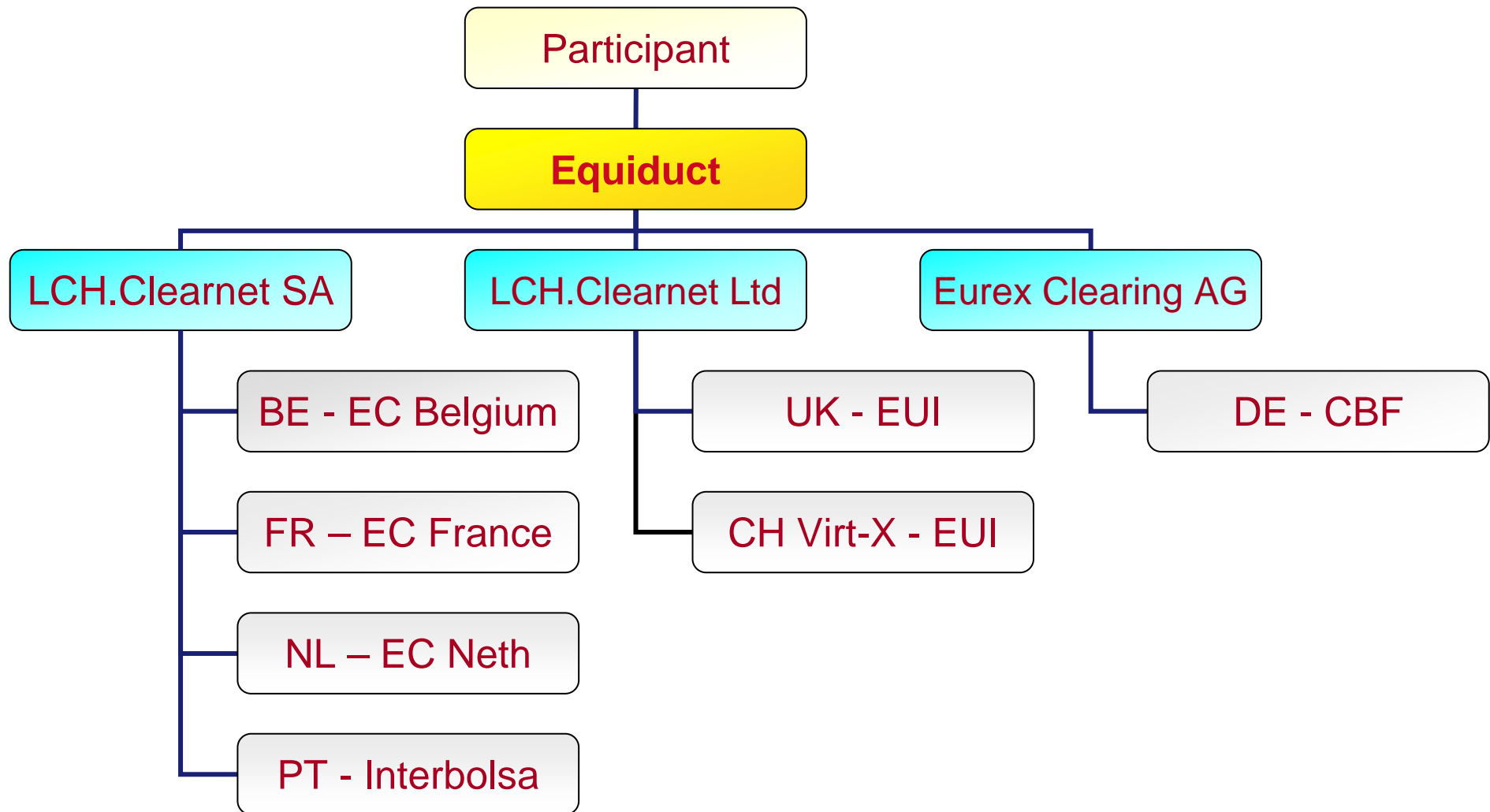
## Equiduct Clearing & Settlement - Rationale

- **Equiduct Clearing & Settlement Model will Leverage**
  - Existing relationships between CCP/SA and Participants
  - Existing relationships between CCP/SA and Issuer CSDs
  - Risk Management Principles at CCP
  - Settlement liquidity pools at the SA (settlement netting)
  - Existing legal frameworks and agreements at the CCP/SA
  - Planned future market development at the CCP/SA

## General Principles - Hybrid Book

- **Cleared Cash Markets**
  - Equiduct connects to existing CCP Solutions
  - Equiduct Participant will be
    - direct member of CCP
    - or represented by General Clearing Member

## Hybrid Book – Cleared Cash Markets



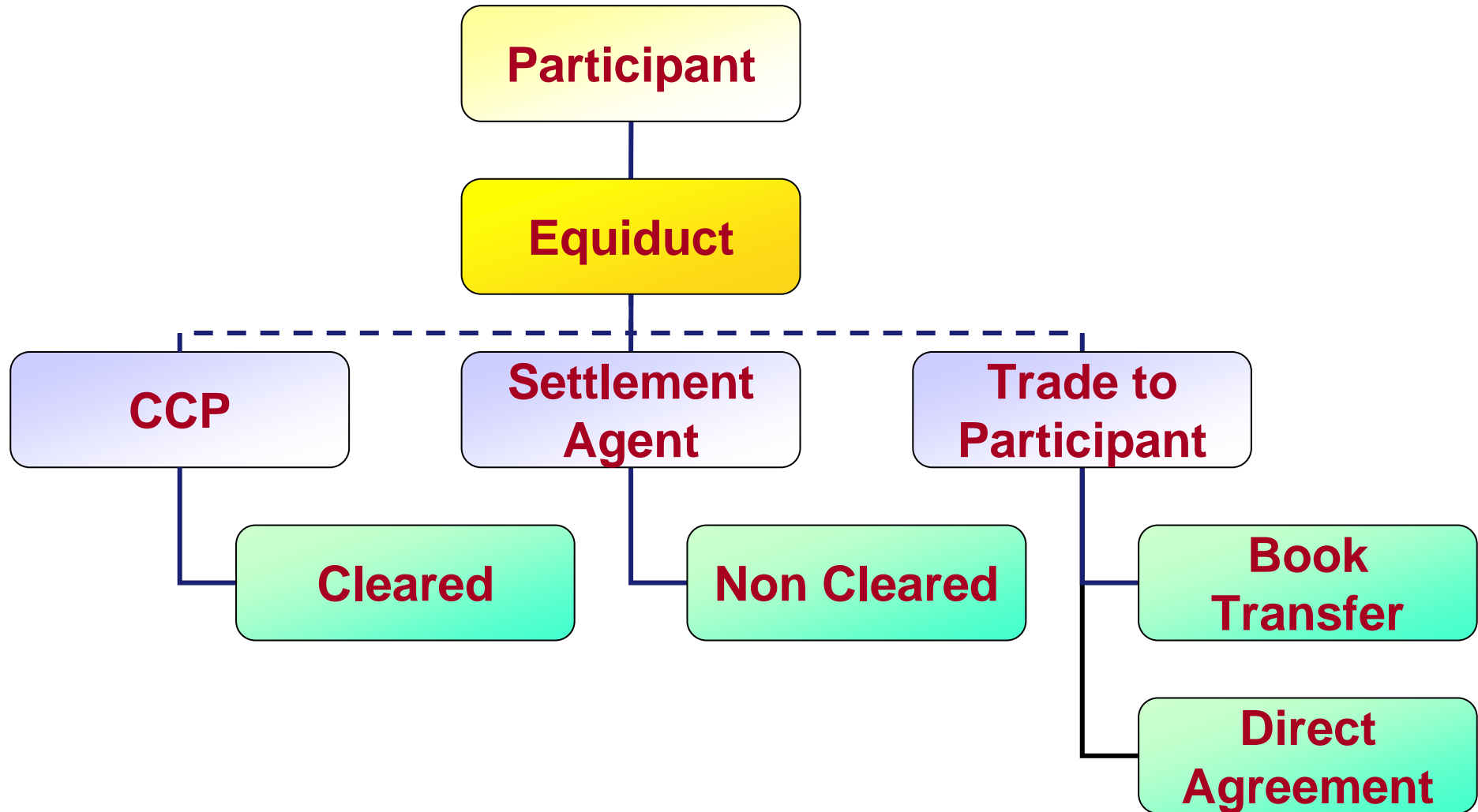
## General Principles - PartnerEx

In addition to Hybrid default Clearing & Settlement, PartnerEx Participants can make use of:

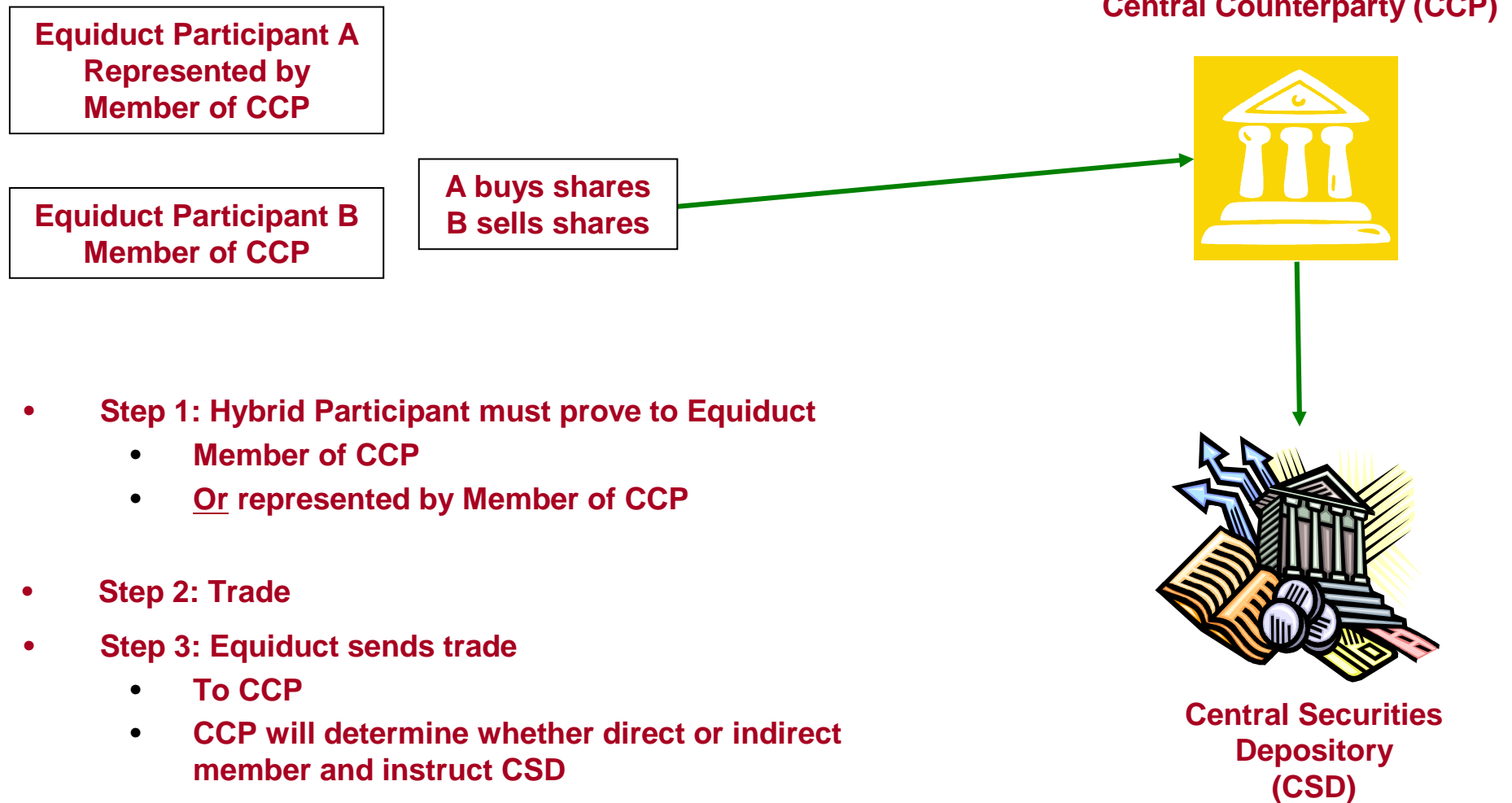
- Bilateral agreements for settlement
- No obligation to use CCP
- Internal Book Transfer settlement



## PartnerEx – Possible Alternatives



## Equiduct Hybrid Book – Cash Cleared Markets



## Contacts

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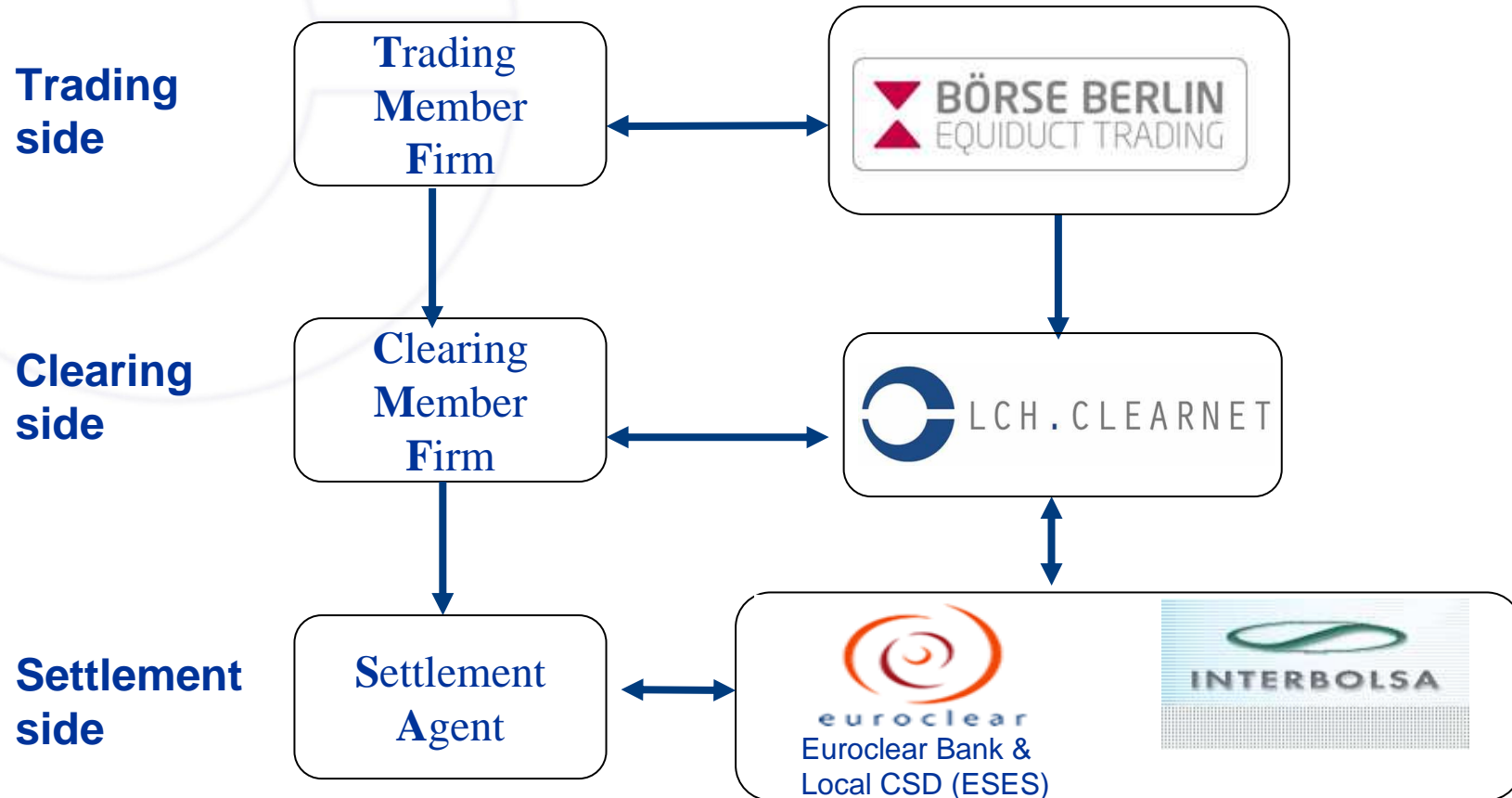
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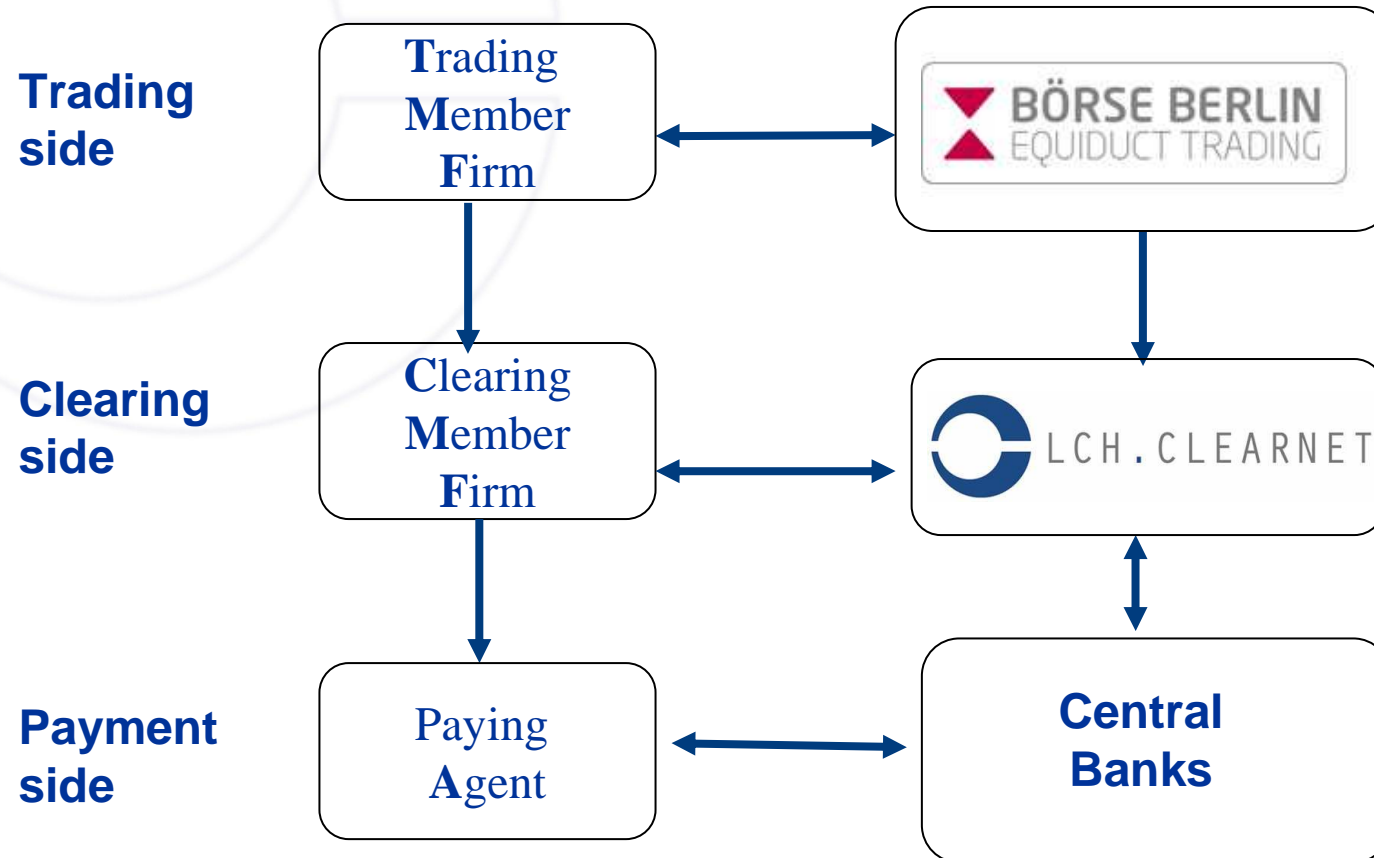
# LCH.Clearnet's clearing services for Equiduct

## Structure and Organisation – Cash Market Settlement



# LCH.Clearnet's clearing services for Equiduct

## Structure and Organisation – Cash Market Payment Fees & Margin Calls



# LCH.Clearnet's clearing services for Equiduct

## Equiduct implementation in LCH.Clearnet SA

1/2

For this new business a very simple set-up and easy procedure to clear Equiduct:

- Usual LCH.Clearnet's Cash Equity Clearing processing
- Same clearing segments
- Only guaranteed instruments and existing instruments, already included in your product referential
- Existing reports
- Fungibility of risk management (Performance Bonds)
- Fungibility at settlement Level (Delivery Accounts)
- Application of the same fee grid as Nyse-Euronext market's clearing

All members connected to LCH.Clearnet's Cash Clearing System are welcome

# LCH.Clearnet's clearing services for Equiduct

## Equiduct implementation in LCH.Clearnet SA

2/2

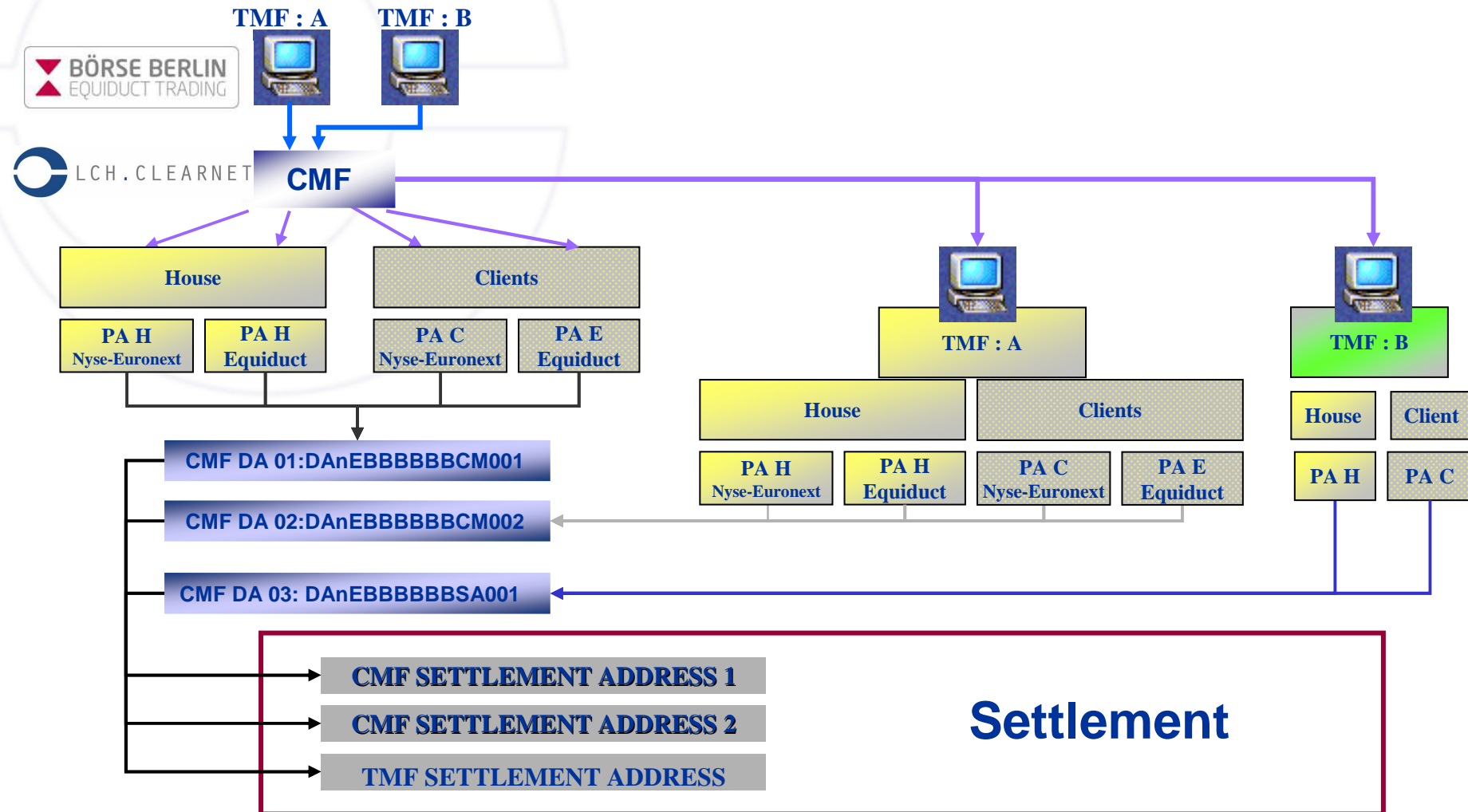
The only modifications:

- One new dedicated trading venue: “**ETS**”
- No fungibility with Nyse-Euronext positions, Systematic Posting on dedicated position account
- Equiduct's matching number is longer than the existing Trade-leg Order Number, to mitigate members impact the choice has been made to split it into two fields in 5 private messages and in the TLRF file



# LCH.Clearnet's clearing services for Equiduct

## Example of account structure – Equiduct's Customer



# LCH.Clearnet's clearing services for Equiduct

## How to clear this new market

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### Membership requirements

- ⦿ For existing members, send to LCH.Clearnet SA a letter of extension on Börse Berlin Equiduct Trading (template will soon be available)
- ⦿ Extend CMF/TMF Clearing agreement to Equiduct
- ⦿ Define account structure with new position account(s)

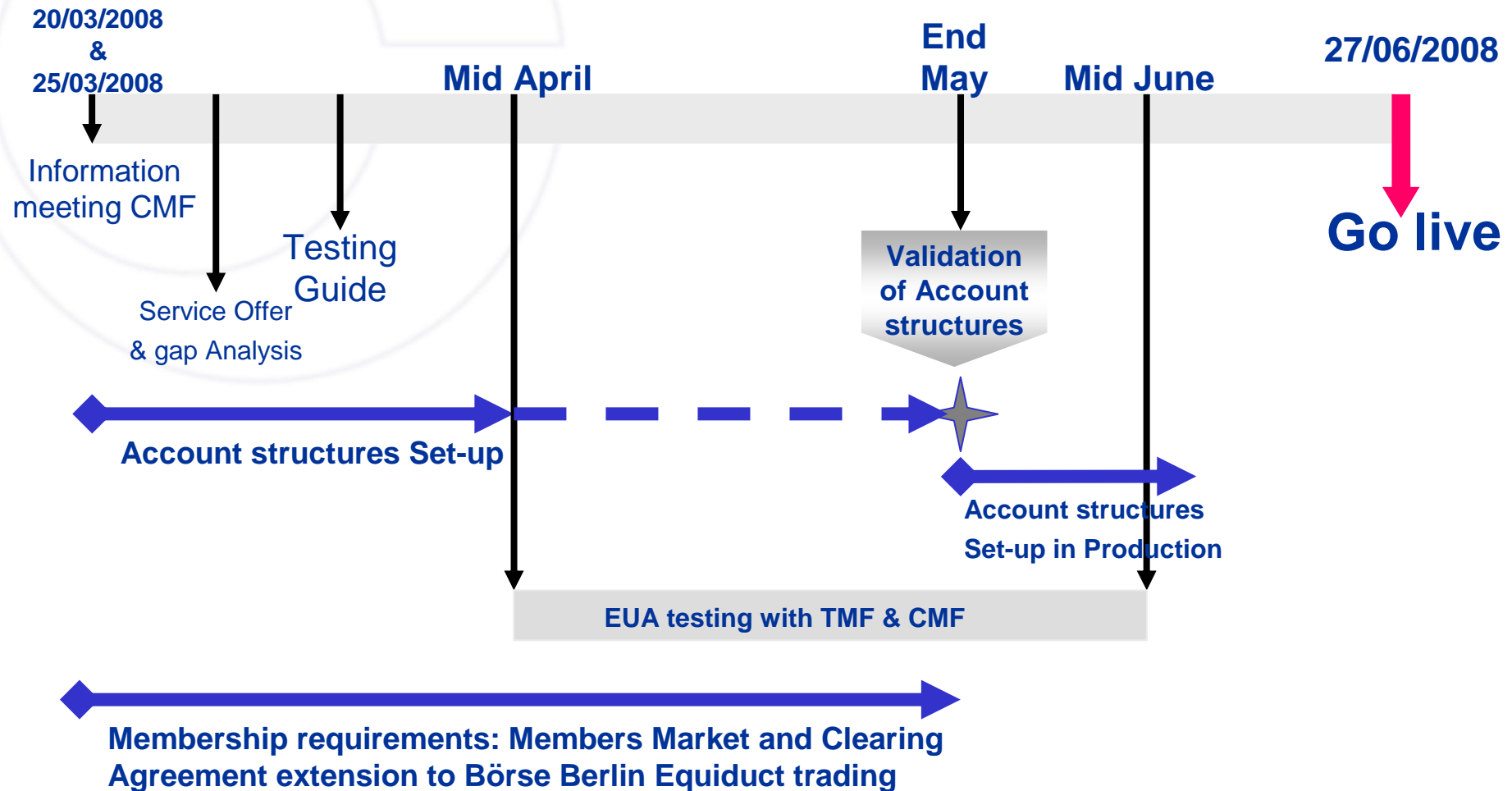
### Testing

- ⦿ Free EUA testing mode from mid-April until mid-June
- ⦿ From trading to clearing
- ⦿ No settlement tests expected
- ⦿ Trades input at trading level



# LCH.Clearnet's clearing services for Equiduct

## Project's Road-map



# LCH.Clearnet's clearing services for Equiduct

## LCH.Clearnet Contacts

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### Customer and Market Management - Product Implementation

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# LCH.Clearnet's clearing services for Equiduct

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🕒 Questions and answers