

Central Counterparty for Securities Borrowing & Lending

**General Member Meeting
December 2008**

Agenda

Introduction

SecFinex Business Model

Introduction of the CCP solution for SecFinex

How to participate?

SECURITIES BORROWING & LENDING

What is Securities Borrowing & Lending

Securities Lending is the market practice by which, for a fee, securities are transferred temporarily from the lender, to the borrower. The borrower is required to return the securities either on demand or at the end of an agreed term.

Why Lend?

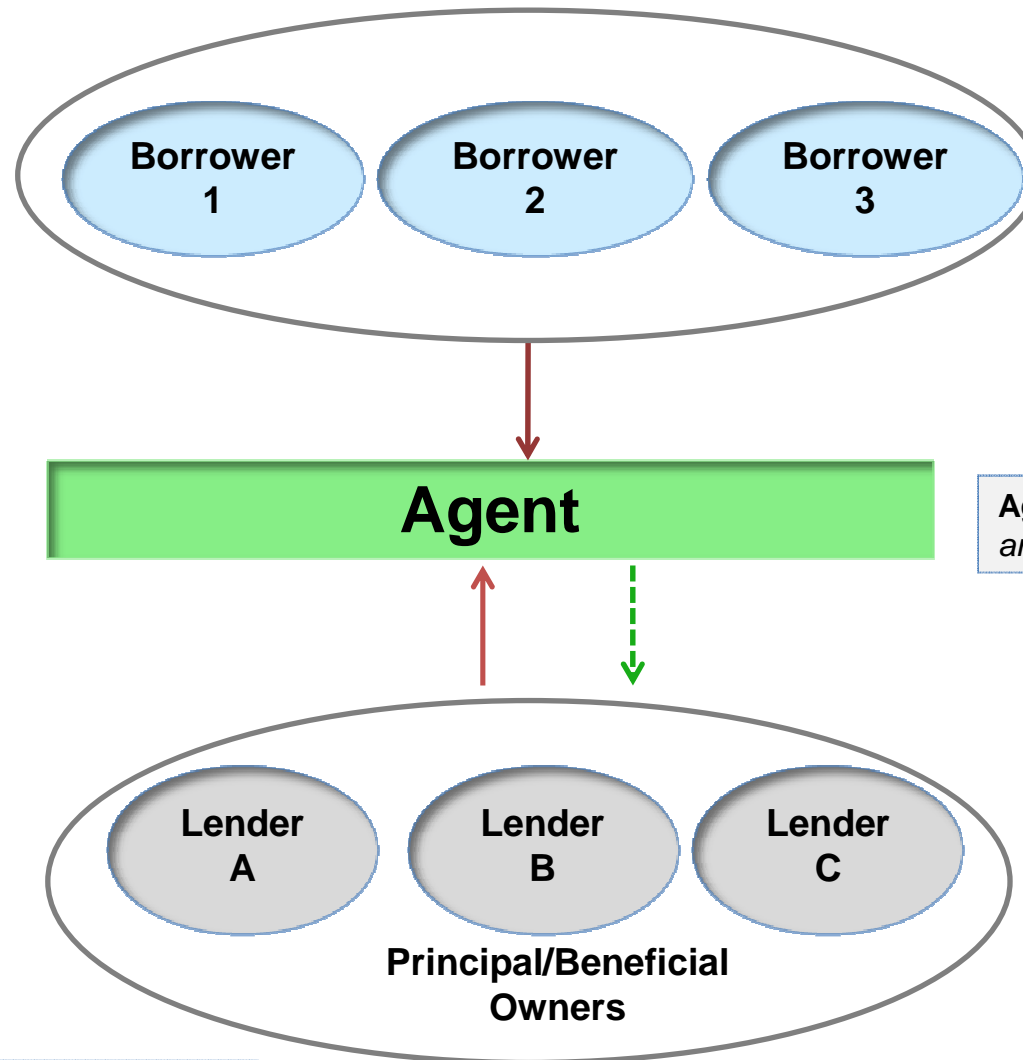
- *To generate incremental revenues on portfolios*

Why Borrow?

- *To cover short positions*

MARKET COUNTERPARTIES

- **Supply – from portfolios and beneficial owners**
 - Pension Funds
 - Insurance Companies
 - Mutual Funds
- **Demand**
 - Broker Dealers
 - Hedge Funds
 - Prime Brokers
 - Intermediaries
- **Facilitators to the stock lending process**
 - Global Custodians
 - Agent Banks



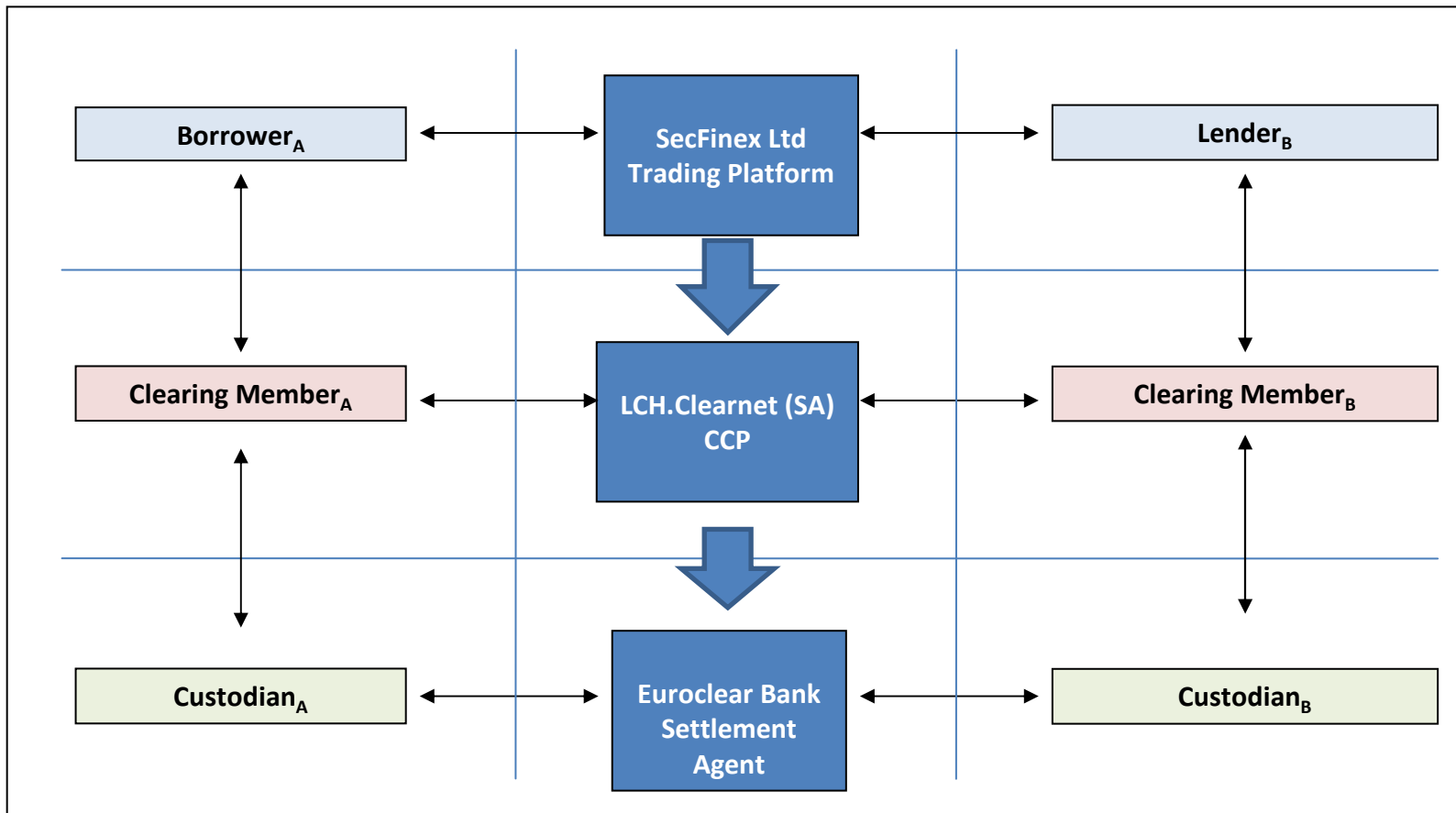
Borrowers pay fees and provide collateral for borrowed securities

Agent manages account and provides reports

Principal Owners provide potential income producing assets

Central Counterparty for Securities Lending

Proposed CCP SBL Model



Central Counterparty for Securities Lending

Key Features of the CCP SBL Model

- Strategic alliance between the Multilateral Trading Facility (SecFinex) and the the CCP (LCH.Clearnet SA)
- Trade execution and transaction management activities supported via the SecFinex Platform (web-based)
- Post trade execution, LCH.Clearnet (SA) will interpose between Borrower and Lender as matched principal to both trades
- Anonymity between Borrower and Lender for the duration of the transaction

Central Counterparty for Securities Lending

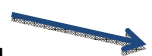
CCP SBL Process Overview

Processes	SecFine	CCP	CSD
Order Management	√		
Transaction Management	√		
Trade capture and validation		√	
Clearing (novation)		√	
Collateral Management		√	
Risk Management (Margin)		√	
Fees/Interest		√	
Corporate Actions			√
Fails Management		√	
Stock Loan Settlement			√

CCP access Indicator



CCP Markets clearly labelled



Best Bids and Best Offers displayed





An affiliate of NYSE Euronext

LCH

Active Bids:	1735	Active Offers:	0
Not Best:	0	Not Best:	0

Quick Reference Guide Welcome Ben

Help Desk: UK Clients : 0800 081 1615 Non UK Clients: +44 20 7748 6146

Home QuickLocate Shorts Longs Order Market Auctions Operations Settings Logout

Messages (0)

Inbox

[Acknowledge All](#) +

Latest Orders: WIL (0969231) 43,000 @ 0.06 Bid.....

Sedol
 ISIN
 Show multiple indices on page

Suspend Mkt
Activate Mkt
Delete Mkt
Suspend All
Activate All
Delete All
Refresh

Settles 01 Dec 2008 - Collateral 100% € Cash Pool - DVP @ EONIA flat (4.01)

Belgian Equities
Danish Equities
Dutch Equities
Finnish Equities
French Equities
German Equities
Irish Equities
Italian Equities
Japanese Equities
Norwegian Equities
Portuguese Equities

Swedish Equities
UK Equities
US Equities
Edit tabs

CAC

Stock	Size	Bid	Offer	Size	CA	1,000	0.06	LG	6,000	0.06	SU	48,000	0.06	0.15	48,000
AC					SGO	395,000	0.06	0.15	16,000		GLE	18,000	1.25		18,000
AF	2,000	0.06	0.55	2,000	ACA	39,000	0.06	1.25	39,000		STM	56,000	0.06	0.15	56,000
AI	33,000	0.06			DX						SEV	2,000	0.15		2,000
ALU	189,000	0.06	0.15	189,000	EAD			2.00	29,000		ML	23,000	0.06		
ALO	9,000	0.06	0.15	6,000	EDF	5,000	0.06	0.30	53,000		RI	25,000	0.15		
MTP	22,000	0.06	0.15	140,000	EF						UG	55,000	0.06	0.15	3,000
CS	27,000	0.06	1.25	23,000	FTE	1,000	0.06	0.15	19,000		PP	2,000	0.06	0.15	3,000
BNP	295,000	0.06	1.25	132,000	GSZ	30,000	0.06	0.35	10,000		RNO	103,000	0.06	0.15	12,000
EN	49,000	0.06	0.15	14,000	BN	22,000	0.06	0.15	37,000		SAN	4,000	0.06	0.15	2,000
CAP	7,000	0.06	0.15	35,000							VV	113,000	0.06	0.15	23,000

Non-Index FR

Stock	Size	Bid	Offer	Size	ETL	1,000 <th style="text-align: right;">0.06 <th style="text-align: right;">0.15 <th style="text-align: right;">1,000</th> <th style="text-align: left;">LR</th> <th style="text-align: right;">12,000 <th style="text-align: right;">0.06 <th style="text-align: left;">SEVDA</th> <th style="text-align: right;">160,000 <th style="text-align: right;">0.06 </th></th></th></th></th></th>	0.06 <th style="text-align: right;">0.15 <th style="text-align: right;">1,000</th> <th style="text-align: left;">LR</th> <th style="text-align: right;">12,000 <th style="text-align: right;">0.06 <th style="text-align: left;">SEVDA</th> <th style="text-align: right;">160,000 <th style="text-align: right;">0.06 </th></th></th></th></th>	0.15 <th style="text-align: right;">1,000</th> <th style="text-align: left;">LR</th> <th style="text-align: right;">12,000 <th style="text-align: right;">0.06 <th style="text-align: left;">SEVDA</th> <th style="text-align: right;">160,000 <th style="text-align: right;">0.06 </th></th></th></th>	1,000	LR	12,000 <th style="text-align: right;">0.06 <th style="text-align: left;">SEVDA</th> <th style="text-align: right;">160,000 <th style="text-align: right;">0.06 </th></th></th>	0.06 <th style="text-align: left;">SEVDA</th> <th style="text-align: right;">160,000 <th style="text-align: right;">0.06 </th></th>	SEVDA	160,000 <th style="text-align: right;">0.06 </th>	0.06		
ATE	43,000	0.06	0.15	43,000	FDR	14,000	0.06	1.50	5,000	FII	9,000	0.06	RCF	12,000	0.06	0.75	9,000
AKE	1,000	0.06	0.15	1,000	GTO	2,000	0.06	0.15	2,000	KN	607,000	0.06	TFI	51,000	0.06		
BIM	23,000	0.06			RIA	56,000	0.06			INEX	45,000	0.06	0.35	18,000	0.15		
CO	2,000	0.06	0.15	1,000	ILD	2,000	0.06	0.85	2,000	ORP	31,000	0.06	0.35	21,000	0.15		
GA	124,000	0.06	0.15	155,000	IPN	703,000	0.06	0.30	50,000	PARRD	708,000	0.06	0.15	18,000	0.15		
CDI	17,000	0.15			IPS	58,000	0.06	0.15	58,000	PUB	2,000	0.06	0.15	2,000	0.15		
CNP	2,000	0.06	1.25	2,000	LI	21,000	0.06						FR	1,000	0.06		
ELE	2,000	0.06	1.00	2,000									MF	2,000	0.06	0.15	2,000

FR ETF

Stock	Size	Bid	Offer	Size
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12/18/2008

SecFinex SBL CCP Order Market Access

All clients will have direct access to the SecFinex SBL CCP Order Market, through one of the following membership criteria:

- Client is a GCM or an ICM
- Client is an NCM but has a Clearing Agreement with a GCM

1. General Clearing Members (GCM) – clearing

- a. for itself (as Principal)
- b. on behalf of its own Lenders/Borrowers
- c. on behalf of non-clearing member (NCM) firms e.g. brokers, which will mean the non-clearing member trading on SecFinex will have a clearing agreement with a designated GCM

2. Individual Clearing Members (ICM) – clearing:

- a. for itself (as Principal)
- b. on behalf of its own clients

Products

- Equities and ETF (in €) listed on NYSE Euronext markets (eligible to the CCP)
- Identification of the products by ISIN codification at clearing level

Trade and position management 1/5

Stock Borrow/Loan Transaction management

Transaction terms:

- No fixed term transaction (in phase 1)
- Open term: termination date is not agreed at the time of the transaction. The return/recall of the securities are agreed at a later stage (in this case the default settlement date is T+364 or ISD).

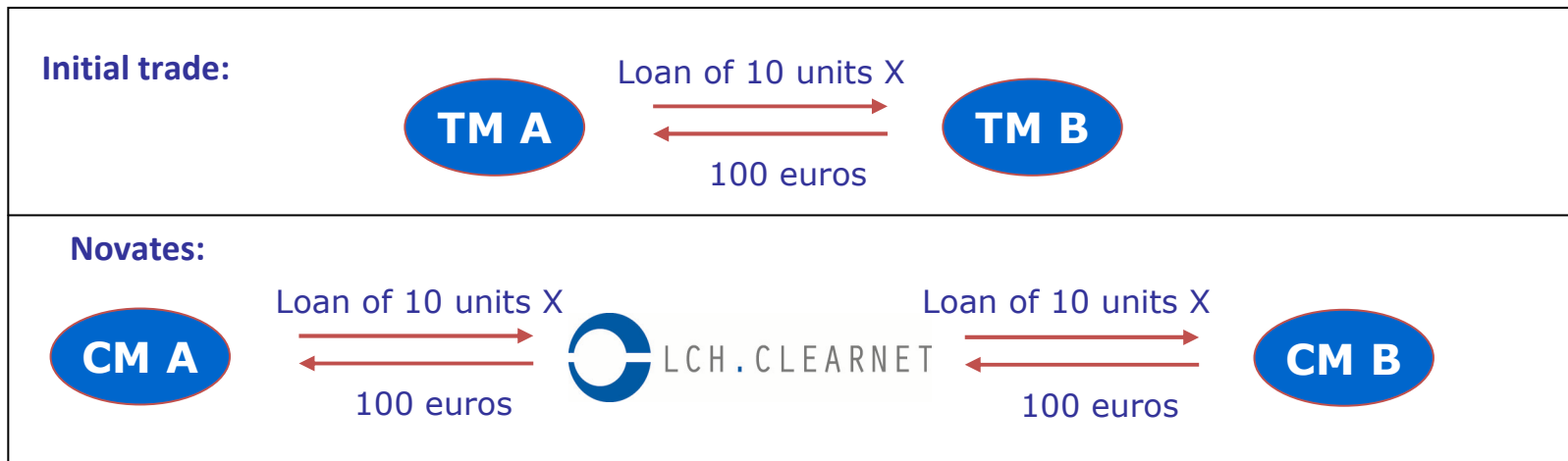
Type of transaction:

- Stock Borrow/Loan trade = 2 transactions
 - Initial transaction = 2 legs
 - Return transaction = 2 legs } Linked into the settlement platform

But all the elementary components (transactions, legs) will be managed as a sole trade.

- No partial return in phase 1

Trade and position management 2/5



Trade and position management 3/5

Position management

- Open positions will be managed in gross (risk management remains on a net basis)
- Account structure: omnibus accounts segregated between Clients and House accounts

Trade and position management 4/5

Corporate Events management

- COEs will not be managed by LCH.Clearnet
- Procedure in case a COE occurs = open positions on which a COE occurs will be closed
 - 1 - Lender and Borrower will be asked to recall/return the securities
 - 2 - If not done, SecFinex will do it in last resort

No trading during the COE period

- In case a position has not been closed and a dividend is paid = contingency procedure
 - Debit 75% of the dividend from the borrower's account
 - Credit this amount on the lender's account

} Subject to Tax
Authorities' approval

Trade and position management 5/5

○ **Loan Collateral**

- Only in cash (in phase 1)
- Currency = security currency = trading currency = €

○ **Interest** (on the cash deposited as collateral)

- Process managed by LCH.Clearnet SA (i.e debit/credit the cash accounts)
- Calculation on a daily basis / Payment on a monthly basis
- Open term transaction: EONIA

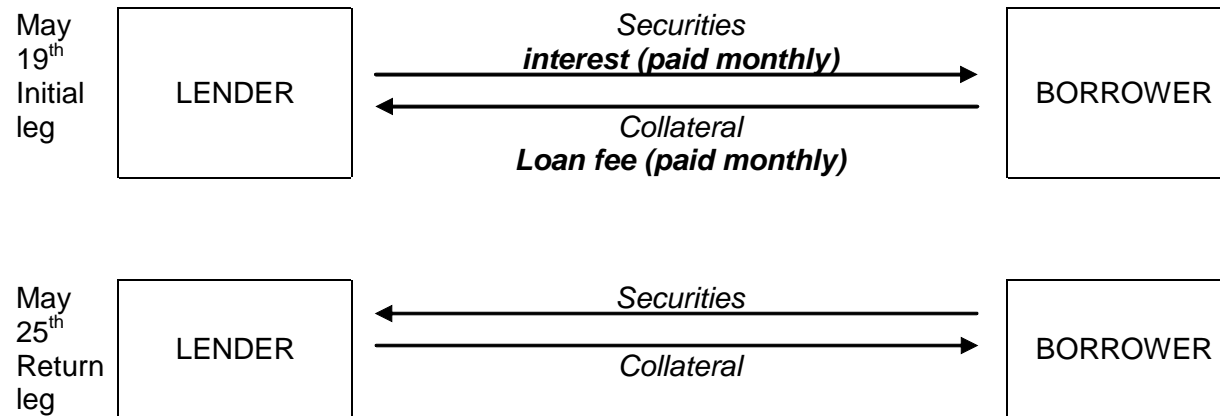
- No re-rate in phase 1

○ **Loan fee** (payable by the Borrower to the Lender)

- Process managed by LCH.Clearnet SA (i.e debit/credit the cash accounts)
- Calculation on a daily basis / Payment on a monthly basis

Stock loan fee – interests = net payable amount

General scheme



Settlement 1/2

- Settlement entity for DVP: **Euroclear Bank**
- Initial leg: the custodian of the lender will deliver stocks vs. payment of the cash collateral to the CCP account in EB. The CCP will deliver stocks vs. cash to the custodian of the borrower (T+1)
- Return leg: the custodian of the borrower will return stocks vs. cash to the CCP account in EB. The CCP will return stocks vs. cash to the custodian of the lender (T+1 or 3)
- Instructions are sent to settlement via SWIFT
- Initial and return legs: settlement following the DVP rules on a gross basis
- The Mark-to-market, cash interest and loan fee are debited/credited on a cash account in a central bank (€ zone) = net amount

Settlement 2/2

Fails and Buy-in

- Fail on the initial leg: initial and return legs will be cancelled at the end of T+1
 - Daily fail penalty payable by the defaulting CMF
- Fail on the return leg: buy-in procedure (T'+3) and cash compensation if not successful
 - Daily fail penalty and buy-in costs payable by the defaulting CMF

Risk management 1/3

- LCH.Clearnet SA's existing rules on NYSE Euronext cash markets are applicable:
 - Collateral accepted: same principles
 - Clearing Fund: same principles
 - Margin: same principles for initial margin + re-valuation of the positions at the daily market price ("Mark-to-market")
 - The mark-to-market is exchanged by parties via LCH.Clearnet in cash

Risk management 2/3

The risk management mechanism has 3 levels:

- Membership requirements :
 - Based on strict regulation and a demanding capital adequacy requirements as applicable today for the CMs active on NYSE Securities market

- Permanent monitoring of member compliance with prudential regulations (position movement, exposure to market risk, members' financial position)

- Margining procedures:
 - Margin and Clearing Fund management identical to current one applicable for NYSE Euronext securities

Risk management 3/3

- ⦿ Eligible assets to cover the margin and clearing fund contribution requirements will be identical to the current list (i.e. stocks incorporated in major indexes, corporate bonds, currencies)
- ⦿ The corresponding conditions, costs and remuneration will also be applicable.
- ⦿ The Web Site describes precisely LCH.CN risk management (refer to http://www.lchclearnet.com/risk_management/sa/collateral_management.asp)

LCH.Clearnet Tariff & Fees

- Clearing Fees: 0.5 bps of the transaction's value per posting
 - Settlement Fees: based on the number of settlement instructions sent to the custodian's account. Fees are charged by EB to LCH.Clearnet and passed on to the Clearing Member (including SWIFT costs)
 - Fail penalty
 - Buy-in penalty
 - Transaction cancellation penalty (due to a fail)
- } **fixed amount
and/or percentage
of the value of the
fail (to be
determined)**

Reporting & information

- Web access/interface = download facility
- Files will be made available to members via Web access or Push/Pull solutions
- Summary of Clearing Members and Trading Members gross open positions per ISIN, per ISD
- Elements used in the calculation of the loan fee and cash interest will be provided
- Clearing Members will ensure reporting to their Trading Members
- SecFinex cash calls will be integrated into the daily cash reports to Clearing Members

How to participate ?

Legal and membership

- Signature of the Admission Agreement/Letter of extension
- Signature of a Clearing Agreement with each Trading Member

Connectivity

- Web interface
- Secured ID-cards

Settlement

- Account open in Euroclear Bank (or Settlement Agent)
- Account open in Target (or Payment Agent)

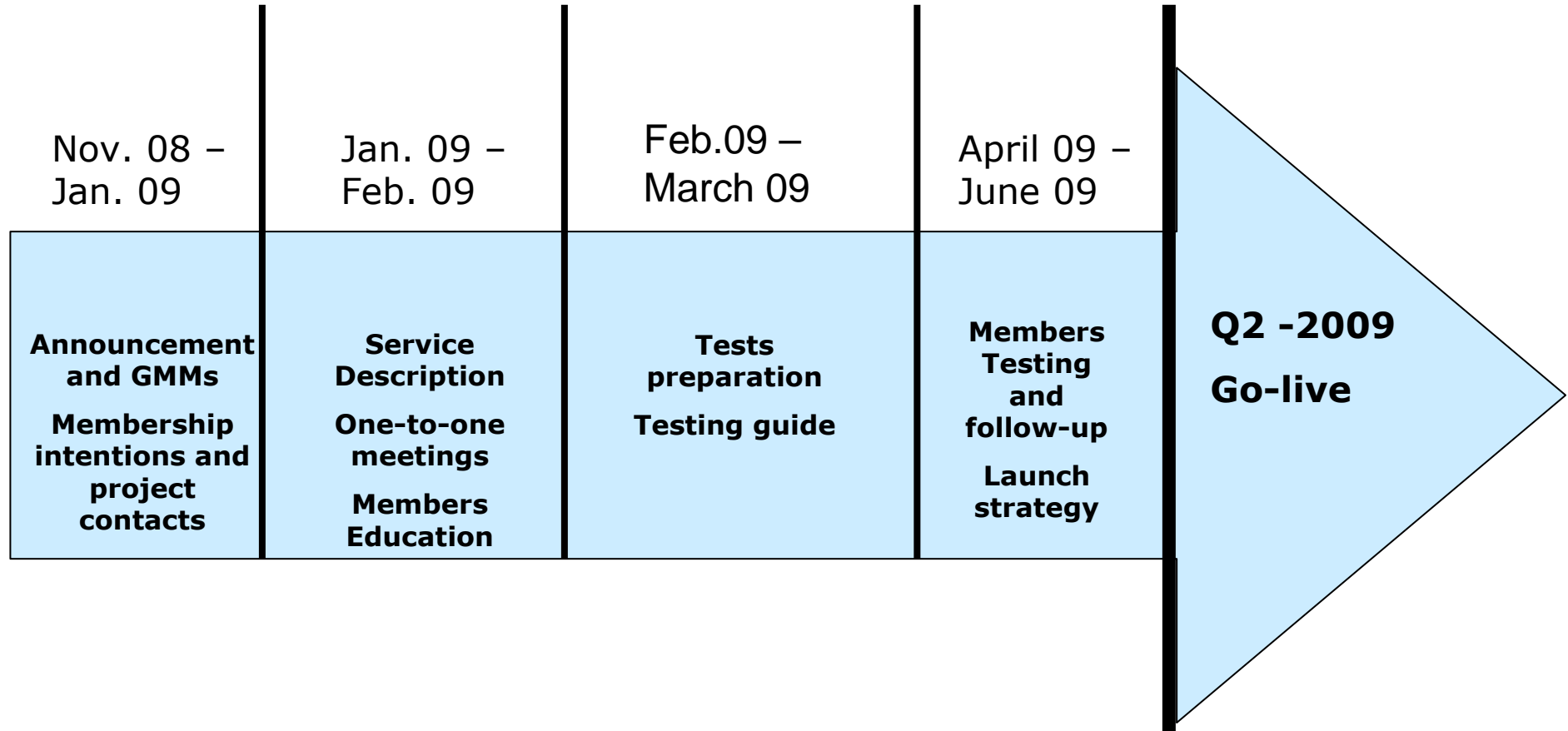
Testing

- Participation to the end-to-end testing period (April to June)
- Readiness

Phase 2 – future developments

- Fixed term transaction
- Non-Cash collateral
- Possible re-rate
- COE processing
- Partial

Implementation plan for members



LCH.Clearnet & SecFinex contacts

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