



# EquityClear Service Description

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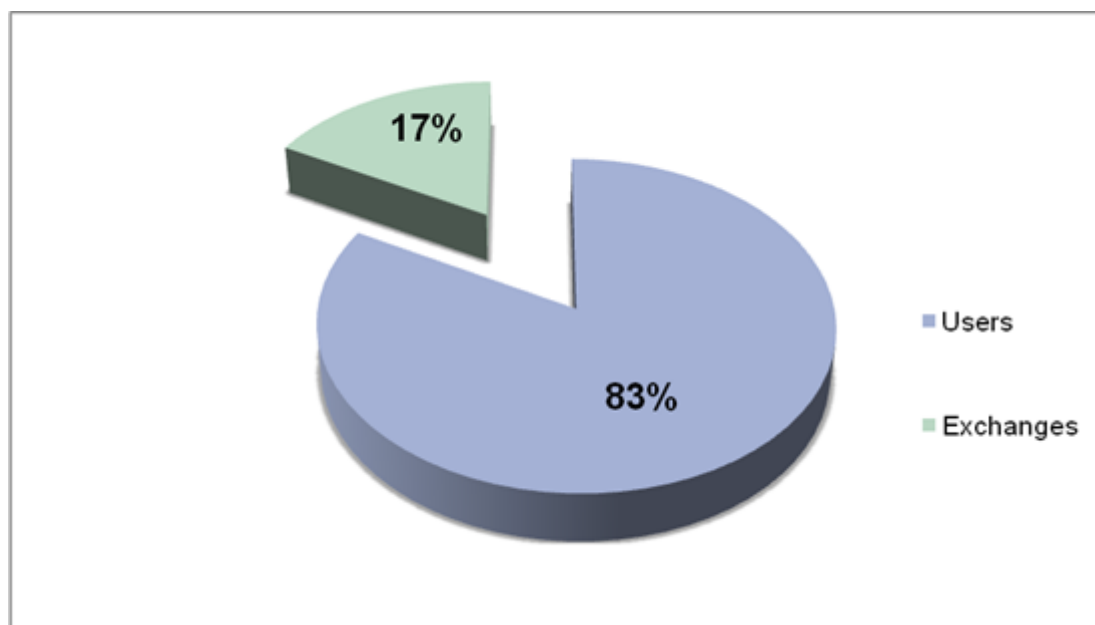
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## Introduction

### Who we are

LCH.Clearnet is the leading independent clearing house, 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.

LCH.Clearnet is largely user owned, user governed and moving toward a utility not for profit model.



LCH.Clearnet Limited is regulated by the FSA as a Recognised Clearing House and is designated as a Derivatives Clearing Organisation in the USA.

LCH.Clearnet Ltd was, in June 2006, assessed by the FSA and the Bank of England against the CPSS-IOSCO recommendations for CCPs. Of the 15 recommendations, LCH.Clearnet Ltd was found to have observed 14 and to have “broadly observed” the other.

## What we provide

The fundamental benefits brought by having a CCP:

- Post trade anonymity.
- A clear risk management process through a definitive choice of contractual counterparties.
- Settlement netting to reduce settlement and operational costs.

The specific benefits brought by LCH.Clearnet through its **EquityClear** service:

- An established and proven clearing service for pan-European cash equities and associated products.
  - London Stock Exchange: UK & Irish equities from February 2001
  - SIX Swiss Exchange (formerly virt-x and SWX Europe): Swiss blue chip and pan-European equities from May 2003<sup>1</sup>.
- A service which can quickly offer CCP clearing to new and existing trade sources.
  - Equiduct from March 2009
  - PLUS Markets from March 2009
  - London Stock Exchange International Order Book from March 2009
  - BATS, Chi-x, Turquoise, NYSE Arca from Q3 2009<sup>2</sup>
  - SIX Swiss Exchange: all eligible securities from September 2009
  - Chi-east from Q2 2010
- A broad membership.
- Risk management of the highest quality
  - Robust and prudent risk management
  - More default defence lines than any peer, with total backing upwards of £750 million.
  - Experience in successfully managing member defaults and near misses.
  - A margin algorithm specifically designed for the service. This strongly recognises position correlations leading to lower margins and hence greater capital efficiencies for members than other margin algorithms used in the market.
- Simple trade date netting. Cross trade platform netting<sup>3</sup>.
- Comprehensive European market access to local market CSDs<sup>4</sup> achieved directly or via settlement agent relationships.
- Established and proven business operational, technical and customer support.
- Fully effective Business Continuity Provision, as proven on 7th July 2005 in reaction to the Aldgate bombing local to the LCH.Clearnet office and primary site<sup>5</sup>.

<sup>1</sup> Cleared Tradepoint pan-European equities from 1995 before it became virt-x.

<sup>2</sup> Subject to regulatory approval.

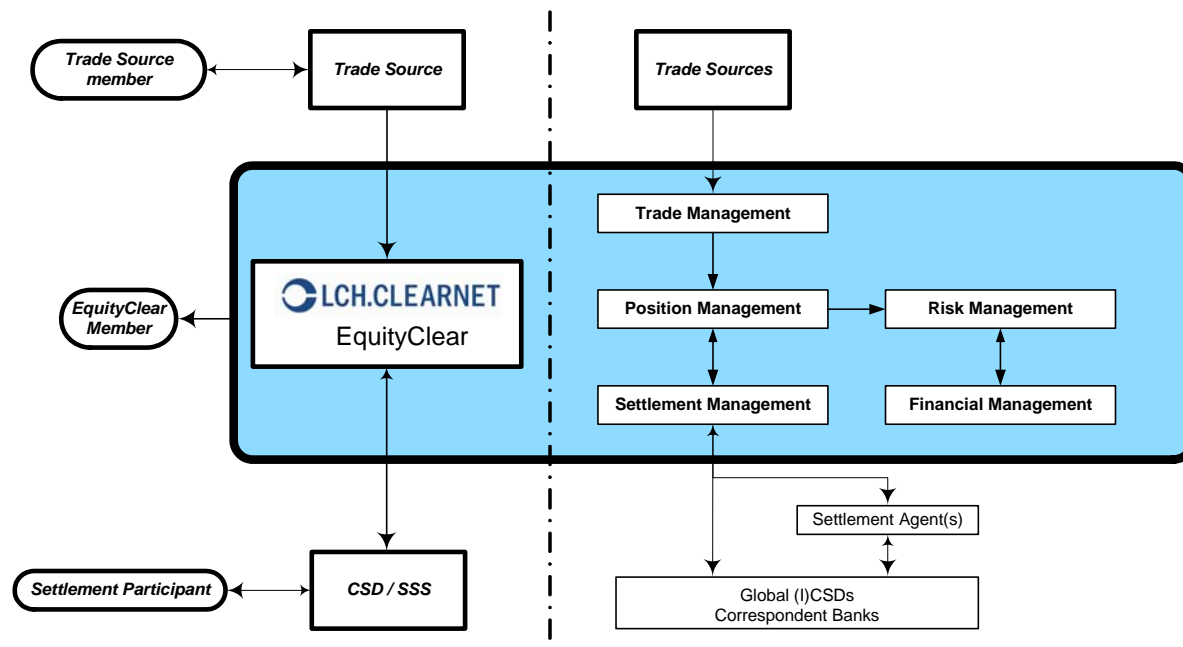
<sup>3</sup> Where facilitated by the external environment.

<sup>4</sup> This includes Euroclear Bank, the ICSD, for Depository Receipts.

<sup>5</sup> In recognition of this LCH.Clearnet Limited received the "Best Risk Operations Mitigation" award in 2005 from the American Financial Technology Awards.

- The capability and capacity for product and service innovation.
- User involvement in product design and governance.

## Service Overview



The EquityClear service comprises the following:

### Trade management

Trades are received and validated to ensure they correctly identify LCH.Clearnet Ltd as the legal central counterparty. Valid trades are registered and details enriched to clear and settle each trade in line with the member's preferences.

### Position management

The open principal positions between LCH.Clearnet and its members are maintained in real time as trades are registered and positions settled, and updated overnight as corporate events are applied.

### Settlement management

Positions are settled on a gross<sup>6</sup> or trade date net basis as preferred by our member, or their settlement agent. Settlement netting can be applied on a per trade source or cross trade source basis<sup>7</sup>.

### Risk management

Margin is calculated using the Equity Risk Analysis algorithm, specifically designed for the service. Portfolio offsets are taken into account, providing accurate position analysis and hence prudent but relatively low margins compared to less tailored methods.

<sup>6</sup> Subject to certain market restrictions.

<sup>7</sup> Where facilitated by the external environment.

Member defaults are managed by the LCH.Clearnet Risk Management department through a well-established and proven process.

### **Financial management**

The Treasury Department manage members' cash and collateral for margin cover and payments. Cash transactions are managed through the LCH.Clearnet Ltd Protected Payments System (PPS).

### **Member reporting**

Members can elect to receive real time confirmation messages of their trades registered for clearing.

A full suite of reports covering all the above functional areas are available from the LCH.Clearnet Ltd member reporting service.

### **Global reach**

The service supports parallel operation in the major global time zones.

Whilst a single consistent service will be provided, business from each regional time zone (Europe, Asia Pacific and America) will be reported separately, in line with the local business day timetable.

## Products

EquityClear clears thousands of securities across the following product types:

- Single company equities
- Exchange Traded Funds (ETFs)
- Exchange Traded Commodities (ETCs)
- Real estate investment trusts (REITs)

All equities on the CESR 'Shares admitted to trading on EU Regulated Markets' would be eligible for clearing in terms of risk management capability. Clearing would be subject to appropriate regulatory permissions and settlement arrangements.

LCH.Clearnet is playing a leading role in developing complementary extensions to the EquityClear product and service range, such as CFDs (contracts for difference) on a combined order book and give-up basis. This is not just for equities but across multiple asset classes.

## Participants

As a central counterparty (CCP), LCH.Clearnet becomes the buyer to the seller and the seller to the buyer for each trade it clears. In doing so, it only contracts on a principal basis with its clearing members.

EquityClear supports three types of membership:

- An Individual Clearing Member (ICM), which can clear its own business and that of its clients.
- A General Clearing Member (GCM), which can clear its own business, that of its clients and that of 3<sup>rd</sup> party trading firms (NCMs)
- A Non Clearing Member (NCM), being a trading firm<sup>8</sup> which does not clear its own business, but must use the services of a GCM.

All agency trades must be cleared by a 3<sup>rd</sup> party GCM; it is legally incompatible to be both agent to the customer and principal to LCH.Clearnet at the same time. Therefore an ICM or GCM trading under the same legal entity will need to clear its agency business through an independent GCM.

Full membership details can be found on our website at <http://www.lchclearnet.com/membership/ltd/default.asp>.

Settlement of contracts with clearing members is carried out in a Central Securities Depository (CSD) or International Central Securities Depository (ICSD). The clearing member can nominate the settlement participant against which LCH.Clearnet settles to be itself, the trading firm or a 3<sup>rd</sup> party settlement agent.

LCH.Clearnet is a signatory to the Code of Conduct and recognises the status of co-CCP.

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<sup>8</sup> A trading firm being a trading member of a trading platform with rights to enter orders and report bilateral trades.

## Position Management

The open principal positions between LCH.Clearnet and its members are maintained in real time as trades are registered and positions settled, and overnight as corporate events are applied.

Members have options as to how they segregate their positions. The following options are provided.

### Member accounts

Each member can operate using one or more notional business units which are each identified by a unique 'member mnemonic'.

For each member mnemonic two sub-accounts are available, a mandatory House account, and an optional Client account. Each member mnemonic and sub-account combination is referred to as a 'member account'.

Positions are netted per member account for the purposes of margin calculation and cover. Therefore each trade and settlement must be attributable to one member account.

### Trading firms & Settlement firms

The buyer and seller of each trade are given a unique identifier by the trading platform, known within EquityClear as the Trade System Participant.

In certain circumstances, including the following, settlement netting at the Trade System Participant level may be sub-optimal.

- Where a firm uses multiple trading identifiers at the trade platform but wants to net settle across them.
- Where a GCM wants to step into the settlement chain and net settle with the Clearing House across some or all of its NCMs.
- Where a 'model B' clearer wishes to net settle with the Clearing House across its 'introducing brokers'.

EquityClear allows for netting across Trade System Participants by introducing the concept of a Settlement Firm, being the participant identifier used within the settlement netting process. The EquityClear Settlement Firm should not be confused with a settlement agent who is a participant of a CSD which manages settlement. Each Trade System Participant is mapped to a Settlement Firm<sup>9</sup>. This mapping can be different for each Trade Source, providing flexibility to members.

The identification of the appropriate Settlement Firm associated with a trade is made on receipt of the trade. It is the Settlement Firm of a trade that is the primary identifier of the Member account through which the trade is cleared and the CSD settlement account through which it settles.

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<sup>9</sup> In most cases, where settlement netting is at the level of the Trade System Participant, the Settlement Firm will be set to the same value as the Trade System Participant. Members' can specify a different value if they prefer.

EquityClear maintains positions per Settlement Firm and reports these to clearing members<sup>10</sup>.

### **Corporate Actions**

In order to maintain accurate member positions and risk manage accordingly, corporate action obligations must be calculated and applied when they arise. This is done within EquityClear.

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<sup>10</sup> To allow GCMs to pass on clearing fees to NCMs, trade volumes are reported by Trade System Participant and not by Settlement Firm.

## Trade Management

EquityClear is a mature service which provides flexibility to trade sources<sup>11</sup>, trading firms and clearing members in processing the trades it is asked to clear as CCP.

### Trade validation

LCH.Clearnet checks that it is legally obliged to clear trades received from trade sources. Trades would therefore be rejected if:

- The security has not been agreed to be cleared by LCH.Clearnet.
- A trade participant does not have clearing arrangements in place.

In both cases the trade source should not have sent the trade to LCH.Clearnet for clearing.

Trades received may fail initial validation for a range of technical, syntactical, logical or operational reasons. All such cases will be investigated and sought to be resolved as soon as possible on trade day, working internally and with the trade source and members as necessary.

### Trade correction

Where a trade source has sent an invalid trade for clearing it can send a trade cancellation on trade day and the trade will be removed from clearing.

Where a trading firm wishes to correct a trade, say a 'fat finger problem', the trade source will manage the request as allowed by its rules. If agreement is reached the trade source can send a contra on trade day being an opposite trade to the original. This is cleared as a new trade, with the trade reference to the original trade reported by EquityClear if provided by the trade source on the contra instruction.

### Trade types

EquityClear accepts public order book trades with contract formation being by "open offer".

EquityClear accepts off book trades with contract formation being by "novation". For these trades the following limit check process is applied post trade validation.

#### Stage 1

An automated check is performed, assessing the price and size of the trade. If within defined limits the trade will be immediately novated, else;

#### Stage 2

A margin calculation is made and a check to see if both members have sufficient collateral to cover the risk. If so the trade will be novated, else;

#### Stage 3

Additional cash collateral is called as necessary, via PPS (see Margin Cover & Payments). When the call(s) are successfully completed the trade will be novated, else;

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<sup>11</sup> A separate document is available to trade sources interested in connecting to the EquityClear service. This provides details of the business and technical interface.

#### Stage 4

The trade is rejected for clearing and remains a bilateral trade, or as otherwise defined by the trade source.

### **Trade enrichment**

The obligations arising from each trade must be:

- ⦿ cleared through a specific margin account; and
- ⦿ settled in specific accounts in the appropriate CSD.

EquityClear allows clearing members to define which accounts to use.

### Margin account

Members specify their margin account for each settlement firm and dealing capacity combination.

The following table shows examples of the choices that can be made.

Settlement Firm	Dealing Capacity	Member mnemonic	Sub-account
BIC12345	Principal (P)	MMA	House (H)
BIC12345	Agency (A)	MMA	Client (C)
BIC98765	Principal (P)	MMA	Client (C)
BIC98765	Agency (A)	MMB	House (H)

Trade sources can provide their trading firms with the option to define the sub-account on a per trade basis. If optionally provided on the trade it will be used.

### Settlement account

Members have flexibility to define their settlement preferences (see section 'Settlement Details').

### UK Stamp Duty Reserve Tax (SDRT) & Irish Stamp Duty

Members when acting in their clearing role are exempt from stamp taxes. This is through secondary legislation in the UK and primary legislation in Ireland.

The responsibility for properly accounting for stamp taxes by market participants is unchanged by LCH.Clearnet clearing trades.

## Risk Management

The Clearing House provides robust and prudent risk management in order to meet its overriding objective to provide Clearing Members with a central counterparty of the highest quality and to safeguard the interests of the company's shareholders and contributors to its Clearing Funds.

LCH.Clearnet Ltd is a CCP of long standing with an extensive record of successful risk management. To support members and interested parties detailed presentations on the following topics can be found on our website at

[http://www.lchclearnet.com/risk\\_management/ltd/overview/default.asp](http://www.lchclearnet.com/risk_management/ltd/overview/default.asp).

- ⦿ LCH.Clearnet – General Introduction to Risk Mitigation
- ⦿ Risk Management compared to External Standards
- ⦿ Default Protections
- ⦿ LCH.Clearnet – Default History
- ⦿ Clearing Members (membership criteria and member monitoring)

## Default Management

LCH.Clearnet Ltd has the following Default Protections in place.

1. Membership Criteria
2. Variation Margin
3. Initial Margin
4. Intra-day Margining
5. Defaulter's own Default Fund Contribution
6. Ltd's own capital (capped)
7. Remaining Default Fund
8. Insurance
9. Remainder of Ltd's capital

In the event of a member default non-defaulters' positions are unaffected.

LCH.Clearnet closes out the defaulter's positions and where necessary to cover losses uses the member's margin, followed by items 5-9 in order from the list above.

There have been five defaults in LCH.Clearnet's history, between 1990 and 2008. In all five cases, the defaults were successfully managed without any knock-on impact on any of LCH.Clearnet's other clearing members or on its cleared markets. Any losses were within initial margin held so LCH.Clearnet's clearing funds and insurance arrangements were not utilised.

Three near misses have also been managed to a clean and satisfactory conclusion, between 1997 and 2005.

Members (ICM or GCM) are required to contribute to the Default Fund. The contribution is recalculated quarterly. Each member's contribution is based upon their proportion of the total initial margin requirement and their proportion of the total traded volume during the previous quarter. The minimum contribution to the default fund is £1million.

## Margin Calculation

EquityClear uses the Equity Risk Analysis (ERA<sup>®</sup>) algorithm for the calculation of initial and variation margin. ERA was specifically designed for this service to significantly recognise portfolio offsets across EquityClear positions, thereby keeping margin requirements low compared to other methods, whilst meeting the necessary level of Risk Management prudence<sup>12</sup>.

Full details of the ERA algorithm are provided in a separate document, the ERA Technical Information Pack (TIP). This includes an overview of margin terminology and the algorithm, full calculation details and worked examples including full test data.

At the end of each trading day a margin calculation is made, the results of which are integrated into the margin requirements for each member account across all LCH.Clearnet product services.

A mid-day margin calculation is made and where there is insufficient cover an intra-day margin call will be made.

Further intra-day margin runs are made regularly and the facility for ad-hoc calculation due to exceptional circumstances is available to the Risk Management department. Additional margin calls can be made based on these calculations but they are not a frequent occurrence.

This same process is run separately for each major time zone, the timings being in respect of the nominal local time for the region.

LCH.Clearnet publishes its margin parameters. Current and historical data can be found on our website at [http://www.lchclearnet.com/data\\_downloads/ltd/era.asp](http://www.lchclearnet.com/data_downloads/ltd/era.asp). Members can use these to replicate the ERA calculations either on live positions or on portfolios they may wish to test. Separate parameter sets will be published for each regional time zone.

## Margin Cover & Payments

Margin requirements can be covered by cash in a broad range of currencies and a range of other collateral.

LCH.Clearnet Ltd operates a direct debit system, known as the Protected Payments System (PPS), for the transfer of funds to and from clearing members. A clearing member is required to maintain a PPS bank account in London in GBP and others as required. Further details can be found on our website at [http://www.lchclearnet.com/risk\\_management/ltd/pps/default.asp](http://www.lchclearnet.com/risk_management/ltd/pps/default.asp).

For trading in the Asia Pacific time zone the London PPS process will continue to operate. However, where intra-day margin cover is required outside the London PPS time window, members will be required to make payment in US dollars directly to an LCH.Clearnet account in Hong Kong within one hour of instruction by LCH.Clearnet Treasury staff. Details of the arrangements can be found on our website at [<to be confirmed>](#).

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<sup>12</sup> LCH.Clearnet Ltd has a stated aim that its risk management should be best practice. It reviews its risk management against the following external standards: European Association of Central Counterparty Clearing Houses (EACH) standards of risk management control; the CPSS-IOSCO Recommendations for Central Counterparties

Any cash paid in respect of margin receives credit interest at the London Deposit Rate<sup>13</sup>.

Other acceptable collateral includes Government Securities, Certificates of Deposit and Performance Bonds. The option to post collateral via Euroclear Autoselect is also available. Full details of acceptable currencies and collateral can be found on our website at [http://www.lchclearnet.com/risk\\_management/ltd/acceptable\\_collateral.asp](http://www.lchclearnet.com/risk_management/ltd/acceptable_collateral.asp).

Members can achieve collateral efficiencies from the netting and consolidation of margin requirements across their business with LCH.Clearnet Ltd, covering all products and services by using a single mnemonic.

Fees are collected monthly in arrears from members using the PPS system.

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<sup>13</sup> London Deposit Rate is calculated daily for each currency by 10:00 hours. It is derived from bid rates for overnight funds quoted by selected money market brokers and/or major banks. For next-day value currencies, LDR is calculated the day prior using tom/next rate.

## Settlement Management

### Settlement Netting

Gross settlement is supported for certain trade sources<sup>14</sup>, being:

- London Stock Exchange – SETS and IOB
- Equiduct, PLUS Markets

Full trade date netting (TDN) is offered.

Trades having the following in common will have the equity quantity and settlement amount netted:

- Contractual terms:
  - Equity (ISIN)
  - Settlement currency
  - Intended settlement date (ISD)
- Settlement accounts, for both parties:
- Trade & clearing parameters:
  - Trade date
  - Settlement Firm
  - Dealing capacity (Principal or Agent)
  - Clearing member account
  - Trade source\*

\*Members can choose to net settlements across trade sources<sup>15</sup>.

There are nine possible outcomes for a settlement participant from netting.

Description	Stock	Cash
Delivery versus payment (DVP)	Deliver	Receive
Receipt versus payment (RVP)	Receive	Deliver
Delivery free of payment (DFP)	Deliver	Net to 0
Receipt free of payment (RFP)	Receive	Net to 0
Cash payment (CPO)	Net to 0	Deliver
Cash receipt (CRO)	Net to 0	Receive
Delivery with payment (DWP)	Deliver	Deliver
Receipt with payment (RWP)	Receive	Receive
Null settlement	Net to 0	Net to 0

Cash only payments arising from these nets will not be further net to a single payment per currency.

<sup>14</sup> All Irish equity agency trades are settled gross as required by the Irish Revenue Commissioners.

<sup>15</sup> Eligible trade sources must have common fails management rules, e.g. buying-in rules. This is best achieved if the trade source uses the EquityClear standard rules.

## Settlement Instruction

A number of settlement instruction methods are used dependent on the (I)CSDs<sup>16</sup> and markets.

### SIX SIS (SegalInterSettle)

LCH.Clearnet will instruct all Swiss equity settlements in SIX SIS as 'locked-in' settlements on behalf of members using existing power-of-attorney arrangements. All the net results are instructed, accepted and processed using the ISO15022 delivery versus payment messages (MT541/MT543).

### Euroclear Bank

LCH.Clearnet will instruct all settlements on behalf of members using existing power-of-attorney arrangements, e.g. LSE IOB depository receipts.

### Euroclear UK & Ireland (CREST)

For the London Stock Exchange (SETS), Equiduct and PLUS Markets, member instruction details are made available to the CREST system by a CREST Central Sponsor. Members can use the CREST Direct Input service to choose how they want their settlements instructed, either using the Central Sponsor instruction details or instructing their own settlements. Settlement is made with an LCH.Clearnet CCP Participant in CREST. CREST CCP Services are available to Members.

For other markets settlement is made with an LCH.Clearnet standard participant in CREST and will operate as described for pan-European CSDs.

### Other CSDs (Pan-European, Asia Pacific)

Except as specifically described above the following process will apply:

LCH.Clearnet will instruct its own settlements<sup>17</sup> into the appropriate CSD. Members, or their settlement agent, must match the LCH.Clearnet instructions.

The top six outcomes in the list above will be instructed as versus payment, free of payment and funds transfer instructions respectively. The delivery/receipt with payment outcomes will be instructed as separate free of payment and funds transfer instructions. The 'null net', no cash or stock, will not be instructed for settlement.

The cash only payments will be made outside CSDs using standard interbank payments.

## Settlement Location

Settlement will generally be in the CSD of highest settlement liquidity.

EquityClear does however provide flexibility:

- Trades in the same equity but different settlement currencies can be settled in different CSDs. e.g.
  - Royal Dutch Shell in pounds sterling (GBP) can settle in EUI.
  - Royal Dutch Shell in euro (EUR) can settle in Euroclear Netherlands.

<sup>16</sup> Members or their settlement agents should consult with the CSDs, as necessary, on the services they provide, particularly with regard to matching and settlement status updates.

<sup>17</sup> Using a settlement agent.

- Trades in the same equity and settlement currency may be settled in different locations per trade source

Trades for the same trade source, equity and settlement currency will be settled in the same CSD.

## Settlement Details

Members specify the following settlement details:

- Settlement Agent (e.g. CREST Settlement Participant, SIS Business Partner)
- Settlement Account - for stock (e.g. CREST member account)
  - Where provided (e.g. not provided by Euroclear Bank)
  - Can be left blank to use the CSD default account
- Cash Account
  - can be left blank to use the CSD default account
- Settlement netting preference<sup>18</sup>
  - Gross or Net, where applicable

The settlement details are specified for each combination of:

- Trade source
- Settlement firm
- Dealing capacity
- Settlement location (CSD)

Trade sources can provide their trading firms with the ability to specify their settlement preferences and send these details on the trade messages<sup>19</sup>. EquityClear will use these details if provided. It is not expected that this will be a preferred option for trade sources or participants.

## Splitting (Partialling)

As a CCP, LCH.Clearnet's position is flat. It is highly beneficial to carry no overnight holdings thus avoiding overnight credit costs and potential additional corporate action processing costs, both of which are ultimately recovered through fees.

Where a stock balance does not fulfil outstanding deliveries LCH.Clearnet will endeavour to split a delivery to minimise overnight security positions in its accounts.

Some CSDs<sup>20</sup> offer CCPs an auto-splitting service and LCH.Clearnet utilises these services where available and suitable to its needs.

Where a suitable auto-splitting service is not available LCH.Clearnet will instruct its own splits where allowed by a CSD. This may be achieved by a cancellation of the original instruction and instruction of new transactions reflecting the split.

<sup>18</sup> In certain circumstances settlement netting may not be eligible for an equity, a trade source or a settlement location. Some trade sources may not be eligible for cross trade source settlement netting.

<sup>19</sup> Used by SIX Swiss Exchange.

<sup>20</sup> E.g. Euroclear UK & Ireland (EUI), SegalInterSettle (SIS), Euroclear Bank

If counterparty confirmation is required LCH.Clearnet operations will contact the counterparty to ask them to do so.

A counterparty may split their delivery to LCH.Clearnet where the CSD provides appropriate facilities but only where LCH.Clearnet is not required to confirm this.

## Shaping

Shaping is the splitting of settlements prior to instruction into a CSD into shapes of limited stock quantity or settlement value. Shaping reduces the benefits of netting and it will only be used where necessary.

Where splitting is not supported by a CSD, LCH.Clearnet may shape instructions to limit the potential size of overnight stock balances and to ensure it maximises liquidity in the market.

Some settlement locations specify a limit and settlements are shaped accordingly; e.g. Swiss Interbank Clearing (SIC) has a specified CHF100M limit per transaction.

## Fails Management through Buying-in

The 'buying-in' process is used to achieve delivery of ongoing settlement fails. It can be initiated by the buying member suffering the fail or by LCH.Clearnet.

In the event that buying-in of the stock cannot be achieved LCH.Clearnet will cash settle the relevant outstanding deliveries in order to provide settlement finality.

Full details of the buying-in procedures can be found in section 2D of the LCH.Clearnet Ltd Procedures on our website at

[http://www.lchclearnet.com/rules\\_and\\_regulations/ltd/default.asp](http://www.lchclearnet.com/rules_and_regulations/ltd/default.asp).

## Administration Fee

LCH.Clearnet will charge an administration fee per Buy-In Notice issued to a failing party. The administration fee will appear as an item on the seller's member's monthly invoice and funds debited from the appropriate member's PPS account.

## Dealing Fees/Commissions

Dealing charges, expenses and commissions that are applicable will be included in the consideration of the settlement transaction matched with the buying-in agent and the liable party.

## Fail Fines

No fines are charged by LCH.Clearnet for settlement fails. CSDs may have such a regime in place. Where LCH.Clearnet is charged for its fails, these charges will be passed through to failing members.

## Corporate Actions

All settlements are instructed on trade date, so corporate action processing for the purposes of settlement is generally carried out automatically by the CSD. EquityClear monitors the resulting settlement confirmations and closes the positions accordingly.

Where CSDs do not generate the appropriate settlement obligations or delete unsettled transactions after a defined period, EquityClear has the capability to instruct the required settlements using the internally generated obligations.

Acceptance of elections on optional events is market dependent. Details are provided in the EquityClear rules.

## Tariff

The EquityClear tariff rewards additional volume on a per member basis, the higher a members' volume the lower their average fee. Details can be found on our website at <http://www.lchclearnet.com/tariffs/ltd/transactions/equityclear.asp>.

The only additional fee is a onetime administration fee when first becoming a member of LCH.Clearnet Ltd.

Charges on LCH.Clearnet made by CSDs or agents in support of the EquityClear service are passed on to members at cost, including discounts received.

Fees are collected through the Protected Payments System (see section Margin Cover & Payments).

## Member Reporting

### Real Time Confirmations

Members have the option to receive real time trade confirmations. The confirmations will be of trades LCH.Clearnet has validated and registered for clearing.

The trade confirmations will be offered using industry recognised message standards.

- ISO 15022 Trade Confirmations (MT518)
- FIX Trade Capture Report (AE).

Messages can be received over SWIFT or over a point-to-point link.

Full details are provided in a separate document, Real Time Confirmations, which can be found on our website at [http://www.lchclearnet.com/cash\\_equities/equityclear.asp](http://www.lchclearnet.com/cash_equities/equityclear.asp).

### Reports

EquityClear provides a full suite of reports for its clearing members, as follows.

#### Margin reports

These reports are provided for each end-of-day and mid-day margin run and for other margin runs where additional cover has been called.

- Positions by member account
- Positions by settlement firm per member account
- Margin summary by member account
- Variation margin detail by member account

#### Trade reports

- Trade details by trading firm per member account

This report is updated regularly throughout the trading day. Its primary purpose is to allow GCMs to monitor their trading firms' positions.

- Fee basis report

This monthly report provides trade volumes cleared for each trade participant for each trade source per member account.

#### Settlement netting reports

- Net settlements by settlement firm per member account

This report lists and references the net settlement instructions created by EquityClear.

- Trade details by trading firm per member account - Updated

The trade report is updated at end-of-day, showing for each trade netted for settlement the net settlement reference as shown on the net settlements report.

- Settlement cost breakdown report

This monthly report provides settlement volumes by settlement firm for each trade source per member account.

Full details of the reports are provided in a separate document, Member Report Formats, which can be found on our website at [http://www.lchclearnet.com/cash\\_equities/equityclear.asp](http://www.lchclearnet.com/cash_equities/equityclear.asp).

Business from each regional time zone (Europe, Asia Pacific and America) will be reported separately, in line with the local business day timetable. The established file naming convention will remain unchanged and apply to each region, but the files will be held in a different directory for each region

### **Treasury reports**

A suite of treasury reports, or banking reports as they are otherwise known, is produced for members across all their LCH.Clearnet Ltd business.

### **Fees Invoice**

Fees are invoiced monthly. A hard copy invoice is sent to a nominated contact. An online fees enquiry service will be available in 2010.

### **Connectivity**

Members can connect to LCH.Clearnet Ltd via the following:

- ⦿ Managed Network Service, provided by BT Radianz
- ⦿ Internet link

## Abbreviations

CCP	Central Counterparty
CESR	Committee of European Securities Regulators
CFD	Contract For Difference
CPSS-IOSCO	Committee on Payment and Settlement Systems - International Organization of Securities Commissions
CSD	Central Securities Depository
ERA	Equity Risk Analysis
EU	European Union
EUI	Euroclear UK & Ireland
EUR	Euro
FSA	Financial Services Authority
GBP	Pounds Sterling (£)
GCM	General Clearing Member
HMRC	Her Majesty's Revenue & Customs
ICM	Individual Clearing Member
ICSD	International Central Securities Depository
IRC	Irish Revenue Commissioners
ISD	Intended Settlement Date
ISIN	International Security Identification Number
LCH	LCH.Clearnet Ltd
LDR	London Deposit Rate
LIBOR	London Inter-bank Offer Rate
MTF	Multilateral Trading Facility
NCM	Non Clearing Member
PPS	Protected Payments System
SDRT	Stamp Duty Reserve Tax
SIS	SegaInterSettle
T	Trade Date
TDN	Trade Date Net(ting)