

Questions	Answers
<b>General</b>	
Is a project general documentation available?	Please see LCH.Clearnet SA's website <a href="http://www.lchclearnet.com">www.lchclearnet.com</a>
The phrase "Phase 1" is often used, does that mean that there will be others phases and if so when will they occur and what will be their content ?	LCH.Clearnet and SecFinex favours a quick implementation of a CCP to the Securities Borrowing and Lending (SBL) market. They are fully aware that some improvements/enahncements are required and they will carry on conducting consultation with the market participants to determine the priorities and the corresponding timing for implementation.
What operational changes does the CCP envisage for SecFinex participants?	At trading level, for SecFinex participants there will not be significant changes apart from the fact that they will not see their counterparty. However they will have to choose a clearing member and set-up the corresponding operational links to receive all the reporting through the latter. For further details please refer to Service Description on LCH.Clearnet's website.
Will there be an interoperability with othe CCPs?	No
<b>How to connect</b>	
What will be the technical set-up for CCP services on SBL? Which clearing system will be used ? What will be the format of the files and how will it communicate with the clearing members?	Please refer to the Connectivity Guide (available on <a href="http://www.lchclearnet.com">www.lchclearnet.com</a> )
<b>Legal/Membership</b>	
What agreements would need to be signed with the CCP? Rule book additions?	<ul style="list-style-type: none"> <li><input type="checkbox"/> The CCP considers memberships from clearing members firms acting for their own businesses (ICM – Individual Clearing Member) of offering such services to their clients (GCM – General Clearing Member).</li> <li><input type="checkbox"/> The membership process is similar to the one existing for cash equities : there will be an admission form to be filled in by the new member or a request for extension when the clearing member will already be active on other segments (fixed income, cash equities, ...) and thus, already habilitated and known by LCH.Clearnet SA.</li> <li><input type="checkbox"/> The admission form stands as a formal acceptance by the clearing member of the validity of the Rules and Regulations of the CCP.</li> <li><input type="checkbox"/> The CCP does not sign any agreement with the trading members firms (TMF), clients of the clearing members firms (CMF).</li> </ul>
Who can be a SecFinex participant?	Please refer to SecFinex membership criteria
Who can be a LCH.Clearnet SA clearing member clearing SecFinex activity?	Please refer to the Membership section of LCH.Clearnet webite <a href="http://www.lchclearnet.com">www.lchclearnet.com</a>
What will be the financial cirteria to become a clearing member on SBL ?	The financial criteria will be the same as those applicable to the cash securities market.
Which access would be possible for a SecFinex participant not willing or not eligible to become a LCH.Clearnet SA clearing member ?	General Clearing Members will be registered in LCH.Clearnet SA including historical ones in order to ensure a wide access to the CCP for SecFinex market participants
What is the difference between a clearing member and an individual clearing member	The different types of clearing members (individual or general) are described on LCH.Clearnet's website (membership section)
<b>Products</b>	
Is it possible to continue trading on other securities (UK, Japanese...) in a bilateral way ?	Yes and SecFinex will propose dedicated order books
What is the scope of the CCP offer?	Open term loans executed on SecFinex in equities and ETFs listed in € on NYSE Euronext markets (except Banco Santander and GB, IE, JE, GG ISINs)
Is it possible to have collateral in another currency than €	In Phase 1 € will be the only currency that will be handled.
<b>Transaction/Trade management</b>	
Are the trading practices to change with the interposition of the CCP ?	Yes, if the participants will keep on trading through SecFinex as a platform, they will remain anonymous and the whole process will be STP (Straight Through Process) afterwards
Is the clearing system anonymous or bi-lateral with the notion of give up	The order market benefiting form the CCP will be anonymous, however to accomodate the members bilateral trades will have the possibility to be given-up to the CCP.
In the "order market" can the members choose to have or not the CCP or is it mandatory to have the CCP?	Choice is offered to members (not all products are available for CCP services)
Is a zero fee manageable with a CCP?	Yes, a zero loan fee can be managed by LCH.Clearnet SA.

Any restrictions (billing) fee on batch trades from internal funds?	<input type="checkbox"/> No, the CCP considers a cleared trade, independently of being "house" or "client", and even for internal clients or external ones : it remains a trade to be cleared which is billed. <input type="checkbox"/> The notion of "batch trades" is mentioned : LCH.Clearnet SA will undertake clearing of securities lending contracts when traded on the SecFinex platform, just after their registration by both counterparties : there is no "batch" facility to allocate trades to internal clients or so and that could simply remain an internal allocation task for the trading member itself.
Is re-rate available?	Not in phase 1
Is there a maximum Trade Size ?	Trade Size is free for market participants.
<b>Fix and Open term loans</b>	
Will the CCP services be available for fix term loans	SA is ready to process fixed term loans but SecFinex privileged not to trade them in order not to force participants returning or recalling such a fixed term loan for COE matters which is not the usage : we should then have SecFinex authorizing fixed term loan from June 2009 onwards (maybe limiting the maturity to the end of Q1 2010 to avoid to be in the 2010 dividend period). Participants and members would have to accept exceptional returns and recalls in case of COE on fixed term loans during Phase 1.
<b>Position management</b>	
Will net position management be available in Phase 1?	Only gross position management will be available in order for all parties involved to be able to follow their positions and allocate returns and recalls to the exact corresponding counterparty.
Will there be partial return/recall in Phase 1?	Partial returns/recalls will not be offered in Phase 1. LCH.Clearnet SA is aware that it is standing amongst the key expectations for a later stage.
Will there be re-rate in Phase 1?	Re-rates will not be offered in Phase 1. LCH.Clearnet SA is aware that it is standing amongst the key expectations for a later stage.
<b>loan collateral/cash interest/loan</b>	
Will cash collateral be available in Phase 1?	Phase 1 is focused on cash collateral only and non cash collateral. LCH.Clearnet SA is aware that it is standing amongst the key expectations for a later stage.
What will be the basis for calculation of the daily value of Cash collateral ?	With the CCP, cash collateral is valued at T at COB using the corresponding closing price for settlement at T+1. It represents 100% of the value without any haircut.
Will the parties have to keep on computing and reconcile their cash interest rates and stock loan fees ?	No, the CCP will become a central computing facility ensuring daily computations based upon negotiated features and will debit / credit the net balance at month end.
Are the cash interest and loan fee debited/credited on a daily basis?	They are calculated on a daily basis and debited/credited on a monthly basis
<b>Settlement</b>	
Will same day settlement be available in Phase 1?	Same Day Settlement will not be available in Phase 1. LCH.Clearnet SA is aware that it is standing amongst the key expectations for a later stage.
Is clearance DVP or Free?	Settlement is done on a DvP basis.
Will partials be possible?	Not in phase 1
Will Euroclear Bank be the only International Securities Depository where SBL settlement will occur?	Communication between the trading venue the CPP and the ICSD is in SWIFT to comply with Giovannini report. It will allow easier connection to other trading / settlement venues. Linkage of instructions which allows Delivery vs Payment (CPSS IOSCO) recommendation was not available within the national CSDs. Using an ICSD will allow to broaden the scope of equities and currencies. When securities collateral will be contemplated the use of NCSD will anyway not be possible.
What about reconciliations?	LCH.Clearnet SA will ensure computation of the loan fee accruals and payments plus the cash interest accruals computation and payments.  Positions, movements will stand amongst data provided in reporting (files and paper based) to enable clearing members undertake any reconciliations process or procedure.

Corporate Events - Dividends	
<p>How will dividends be handled ? What will be the applicable rate for manufactured dividends ?</p>	<p>The general rules for Phase 1 will be that the loans must / will be closed prior to the record date of any corporate event including dividends so that LCH.Clearnet SA will not have to process them.            However in case the loan is not closed LCH.Clearnet SA with its tax counsels retained a workaround for Phase 1 where there is no risk of coupon washing and no role for that it is considered as tax payment agent. This solution entails that LCH.Clearnet SA will debit 75% of the dividend value to the borrower and credit it to the lender. This should remain an exceptional contingency procedure.            At business start (June 09) the coupon period will be over and LCH.Clearnet SA would like to improve this situation prior to the coupon period of 2010.            In case of a recall done by the Lender (to get the full benefit of the dividend) and a default to deliver by the Borrower, there will be a fail and SA will take profit of the principle of the "buyer protection" to ensure a real dividend to the lender and no manufactured dividend.            The whole scheme is under tax authorities validation.</p>
<p>Will the lender be able to make a tax reclaim to tax authorities ?</p>	<p>There will be no possible claim as far as the manufactured dividend is a financial indemnity and not a dividend.</p>
Fails and buy-in	
<p>What happens if trades do not settle on the on leg or the re-delivery</p>	<p>If there is a fail on the initial leg the loan is cancelled on the veening of the intended settlement and an indemnity is paid by the defaulting clearing member to the other one via the CCP. If there is a fails on the return leg a buy-in is put in place on the fourth day following the intended settlement date.</p>
<p>Fails on Return Leg The delay of buy in should be the larger possible over three days. Such delay can be offered by the lender to the borrower.</p>	<p>LCH.Clearnet SA requires to set up a standard and unique process for all and cannot let one party choose whilst the other is under uncertainty.            The 3 day period has been set up with the feed back of participants based on the cash market settlement delay            For the start of the CCP service, to assess the market discipline and the potential workload the 3 days period will be kept for at least 6 month and then it could be adjusted in case the majority wants so, the number of fails is reasonable and the regulators agree.</p>
<p>Will the lender have the choice to rerate (without penalty) instead of having the buy-in executed.</p>	<p>Such function will not be offered in Phase 1.</p>
<p>Who does the CCP go to for buy-in? What is the process? How much is charged to whom?</p>	<p><input type="checkbox"/> The buy in process foreseen for the securities lending contracts is very similar to the one existing for the cash equities, except that the delays and penalties will be different. Please refer to Instruction XXX  <input type="checkbox"/> Who does the CCP go to for buy in ? the CCP will disclose on its web site (as it is the case today for buy in on cash equities) its offer to buy or sell securities and any counterpart, member firm or not member firm could be bidding for it.</p>

Risk management	
Who contributes to the default fund? Where is the collateral held?	LCH.Clearnet SA requests the clearing members to contribute to the default fund, the relevant default fund for SecFinex is the cash and derivatives clearing fund. The collateral corresponding to the clearing fund contribution is provided by the clearing members to LCH.Clearnet SA according to the provisions of Instruction IV.3-1.
Who provides initial margins? Where is the collateral held?	LCH.Clearnet SA requests the clearing members to provide initial margins. The collateral corresponding to the initial margins is provided by the clearing members to LCH.Clearnet SA according to the provisions of Instruction IV.3-1.
When are the margin calls expected to be settled?	Please refer to Instruction IV.3-1.
From a risk perspective will there be netting between the NYX and the SecFinex positions i.e the cash buy and sell positions on NYSE Euronext market will or not be netted from a risk perspective with the loan positions on SecFinex on the same instruments?	No, there will not be fungibility between "cash" positions and "securities lending" positions on the same ISIN.
Will there be netting from a risk perspective within SecFinex market?	The margin requirements of the clearing members vis-à-vis LCH.Clearnet SA are recalculated on a net position within the SecFinex market.
Is there intra day margin?	No.
When will LCH.Clearnet SA call margin and based on which basis?	Margins will be called at T+1 based on T COB positions.
Who has credit exposure and access of the default of fund of the CCP?	LCH.Clearnet SA has credit exposure vis à vis its clearing members (and vice versa). LCH.clearnet SA is managing the default and uses it when a default occurs and the collateral provided by the defaulting clearing member is not enough.
What is considered acceptable collateral ?	Please refer to Instruction Instruction IV.3-1.
What would be the level of the Initial Margin?	Simulations can be performed on request on a sample portfolio
How much capital is contributed to the fund by the clearing members?	Please refer to Instruction Instruction IV.3-1.
What precautionary steps are taken in case the CCP goes bankrupt? How would CCP deal with drastic market downturn affecting a large percentage of their members (e.g. Lehman X 5)	<p>various protection walls :</p> <p>i. Margin collateral deposited by clearing members : taking Initial Margin to cover an estimate of the potential future losses incurred in managing the default of the Member under normal market conditions. A calculation is performed on netted unsettled return legs at Clearing Member compartment level (client/house) using the current SPAN® Liquidation risk algorithm, with the margin parameters used for cash equity markets. These parameters can be found in Risk Notices.</p> <p>ii. Default Fund as the multilateral protection in case margin collateral for a given defaulting clearing member has revealed to be not sufficient to cover closure of positions or to undertake proper actions.</p> <p>iii. LCH.Clearnet SA capital.</p> <p><input type="checkbox"/> Such a risk management framework for LCH.Clearnet SA has demonstrated its robustness during the Lehman default in September 2008, Lehman being a clearing member to LCH.Clearnet SA and the first protection wall (deposited margin collateral) has revealed to be sufficient to undertake proper actions to cover the Lehman default.</p>
Are both borrowers and lenders margined? How is margin calculated/increased/decreased?	<ul style="list-style-type: none"> <li>• Both the lending clearing member and the borrowing clearing member have to deposit margin to LCH.Clearnet SA as far as the latter has to cover risk of default from both sides.</li> <li>• A simulation facility is available to pilot clearing members in order for them to properly estimate the level of Initial Margin to be deposited with LCH.Clearnet SA according to a given opened position.</li> </ul>
Is there a minimum margin?	No
Will each entity be required to pay into the fund separately?	<ul style="list-style-type: none"> <li><input type="checkbox"/> Each clearing member firm (CMF) will be required to contribute to the fund.</li> <li><input type="checkbox"/> The clearing member fund contribution is computed by LCH.Clearnet SA according to the positions held by the CMF on behalf of its trading client members (TMF), the latter being the ones trading on the SecFinex platform (see general scheme in introduction).</li> </ul>
Regulatory capital requirements for firms for exposure to CCP?	0 weighted capital allocation can be claimed by clearing members considering their business cleared in a CCP.

<b>Tariff and fees</b>	
Will there be a minimum fee?	No
What are the benefits underlying the 0,5 bps fee? Will it increase when netting is implemented?	The benefits allowed by the interposition of a CCP (no capital allocation, freeing of counterparty risk) are maybe no direct costs to the Securities Lending Trading Desks or GC Business but are to be taken into consideration. The level of clearing fee as evoked by LCH.Clearnet SA should remain stable for the first years of activity and should include additional functions to be included in the service offer. Simulations will be made available for participants and members.
When do you bill for transactions?	On the loan set-up.
Will the fee be pro rata temporis ?	The fee is not intended to be pro rata temporis. LCH.Clearnet SA will revisit its simulations and see if its fee offer has to be amended.
What is the rationale for adding penalties costs for buy-in whilst they do not exist today ?	The aim is to avoid as much as possible fails and to show the regulators that deterrent measures are being used to this end.
<b>Reporting and information</b>	
Will there be information regarding corporate events to help the participants close their loan?	Corporate action detection will be implemented to SecFinex and LCH.Clearnet SA in order to help participants closing their positions.
Where is the clearing information available to members, in the SIF, BIF file or other files?	The reporting will not be done in the SIF, BIF files but in other / new files (same logic as for Fixed Income = files available via web access or push/pull solution.
<b>Miscellaneous</b>	
Will there be other entry points into the CCP, for eg using ETCMS for OTC trades or via another platform such as Equilend?	LCH.Clearnet SA is willing to extend its CCP services to other trading platforms but also to matching platforms for trades being negotiated in bilateral : it is not foreseen in Phase 1 but stands clearly as a target feature.