



EquityClear

Service Description

Cash Equities

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Introduction

Who we are

The LCH.Clearnet Group is a leading multi-national clearing house, serving major exchanges and platforms as well as a range of OTC markets. It clears a broad range of asset classes, including securities, exchange-traded derivatives, commodities, energy, freight, foreign exchange derivatives, interest rate swaps, credit default swaps and euro and sterling denominated bonds and repos. LCH.Clearnet works closely with regulators and clients to identify and develop innovative clearing solutions.

LCH.Clearnet Group Ltd is majority (c.57%) owned by the London Stock Exchange Group, with the remainder being owned by its users (i.e. clearing members) and other exchanges.

What we provide

The fundamental benefits brought by having a CCP:

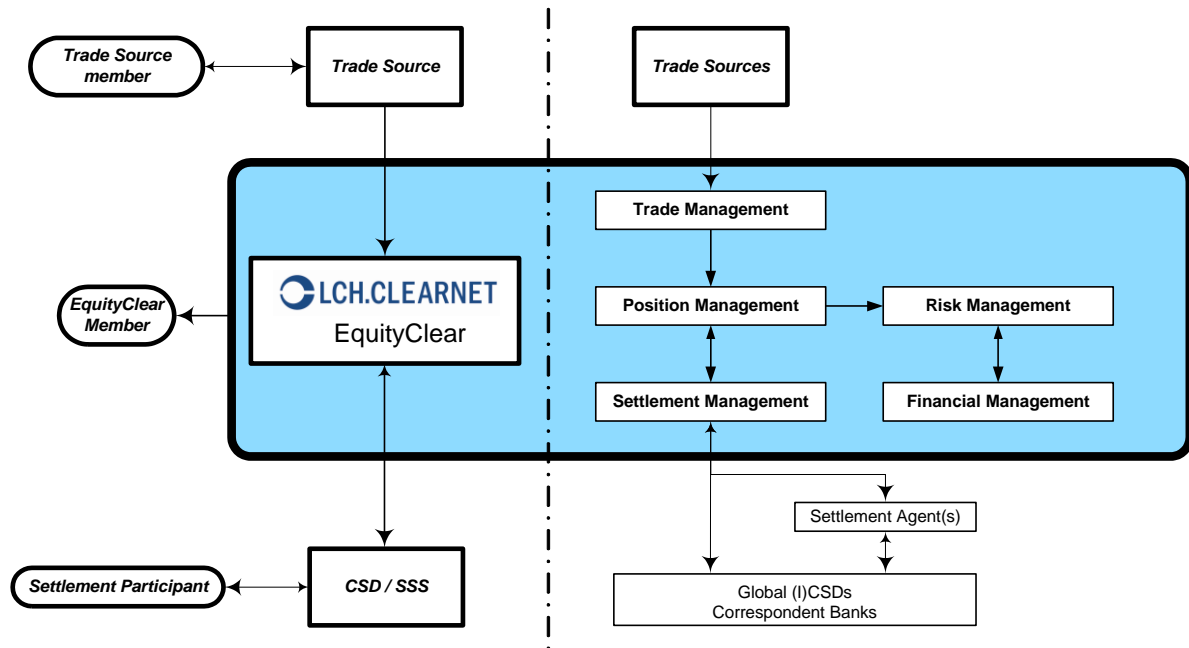
- α Post trade anonymity.
- α A clear risk management process through a definitive choice of contractual counterparties.
- α Settlement netting to reduce settlement and operational costs.

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

- α An established and proven clearing service covering a broad range of global cash equities and associated products from trade sources including RIEs, MTFs, RMOs and OTC matching services.
- α A broad membership.
- α Risk management of the highest quality
 - Robust and prudent risk management
 - 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 industry.
- α EMIR compliant client segregated account structure options
- α Flexible netting and settlement options
 - Trade date netting.
 - Four netting and aggregation options.
 - Cross trade source netting.
 - Optional power of attorney instruction to settlement agents.
- α Comprehensive European market access to local market CSDs¹ achieved directly or via settlement agent relationships.
- α Established and proven operational, technical and customer support.
- α User involvement in product design and governance.
- α The capability and capacity for product and service innovation.

¹ This includes Euroclear Bank, the ICSD, for Depositary Receipts.

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.

The account structures allow for client positions to be managed on an omnibus or individually segregated basis.

Settlement management

Positions are settled on a gross² or trade date net basis as preferred by our member, or their settlement agent. Four netting and aggregation options are offered, which can be applied on a per trade source or cross trade source basis. Optional power of attorney instruction to settlement agents is available.

² Subject to certain market restrictions.

Risk management

Margin is calculated using the Equity Risk Analysis (ERA) 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.

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.

Products

EquityClear clears thousands of securities across the following product types:

- α Single company equities
- α Exchange Traded Funds (ETFs)
- α Exchange Traded Commodities (ETCs)
- α 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.

Participants

As a central counterparty, LCH.Clearnet becomes the buyer to the seller and the seller to the buyer for each trade it clears. The buyer and seller must each be a member of LCH.Clearnet, must be acting in a principal capacity and must be one of the two membership categories which confer Clearing Member status, namely:

- α An Individual Clearing Member (ICM), which can:
 - clear trades it executes as a participant of a trade source³.
- α A General Clearing Member (GCM), which can:
 - clear trades it executes as a participant of a trade source.
 - clear trades executed by other participants of a trade source.

EquityClear supports a membership category which does not have Clearing Member status, namely:

- α A Non Clearing Participant (NCP), which can:
 - execute trades as a participant of a trade source using the services of a GCM to clear such trades.

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

Settlement of contracts with clearing members is carried out in a Central Securities Depository (CSD) or International Central Securities Depository (ICSD). In certain circumstances cash settlement is via standard interbank payment. The clearing member can nominate the settlement participant against which LCH.Clearnet settles to be itself, the trading firm or a 3rd party settlement agent.

³ A Trade Source being a source of matched trades to LCH.Clearnet, including exchanges, MTFs, MROs and OTC matching services.

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.

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 principle sub-accounts are available, a House account ('H') and a Client account ('C'). Each member mnemonic and sub-account combination is referred to as a '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.

- α Where a firm uses multiple trading identifiers at the trade platform but wants to net settle across them.
- α Where a GCM wants to step into the settlement chain and net settle with the Clearing House across some or all of its NCPs.
- α 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 Firm⁴, being the participant identifier used within the settlement netting process. The Settlement Firm can equally be considered as a Position Account.

Each Trade System Participant is mapped to a Settlement Firm⁵. 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.

EquityClear maintains positions per Settlement Firm and reports these to clearing members⁶.

⁴ The EquityClear Settlement Firm should not be confused with a settlement agent who is a participant of a CSD which manages settlement.

⁵ 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.

⁶ To allow GCMs to pass on clearing fees to NCPs, trade volumes are reported by Trade System Participant and not by Settlement Firm.

Client Segregation

Under EMIR CCPs are required to provide for the segregation of client positions, the key relevant text being as follows.

1. A CCP shall offer to keep separate records and accounts enabling each clearing member to distinguish in accounts with the CCP the assets and positions of that clearing member from those held for the accounts of its clients (**'omnibus client segregation'**). [Level 1, Article 39(2)]
2. A CCP shall offer to keep separate records and accounts enabling each clearing member to distinguish in accounts with the CCP the assets and positions held for the account of a client from those held for the account of other clients (**'individual client segregation'**). Upon request, the CCP shall offer clearing members the possibility to open more accounts in their own name or for the account of their clients. [Level 1, Article 39(3)]
3. ... At the request of a clearing member, the CCP shall maintain separate records and accounts enabling each client to distinguish in accounts held with the CCP the assets and positions of the client from those held for the accounts of the indirect clients of the client. [Level 2 RTS (Indirect Clearing Arrangements), Article 3(1)]

That is, the CCP needs to provide three levels of segregation for client business.

1. Omnibus segregation of client business from house business.
 - The established segregation achieved through the house and client member accounts described above.
2. Individual segregation of client business from omnibus segregated client business.
 - This provides clients of clearing members the option to have their positions and collateral segregated at the CCP so that they can port these to a new clearing member in the event of the default of their current clearing member.
3. Segregation of indirect client business from individually segregated client business⁷.
 - This provides clients of the client of a clearing member (indirect clients) the option to have their positions and collateral segregated at the CCP from that of the client of the clearing member.

The segregation is of both open positions and collateral lodged with the clearing house. The position segregation is managed through the EquityClear service and the collateral segregation is managed through the common LCH.Clearnet Treasury systems [Banking and CMS (Collateral Management System)].

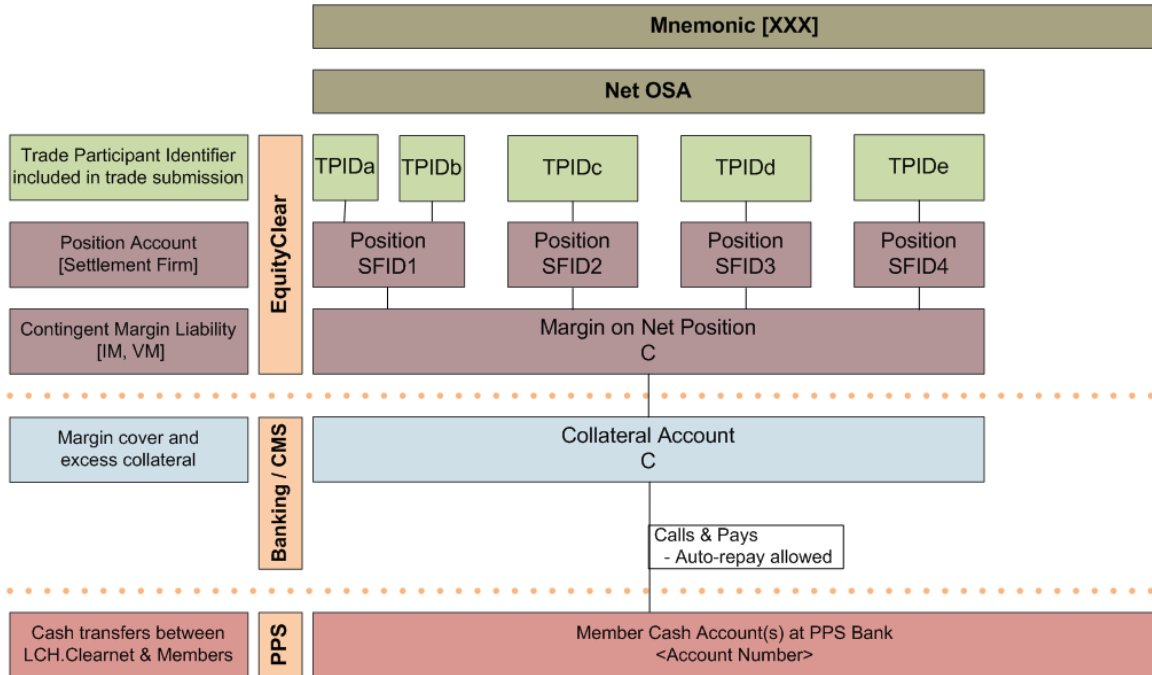
The different account segregation levels are illustrated below.

It should be noted that client segregation does not change the principal relationship between LCH.Clearnet and clearing members on all cleared trades.

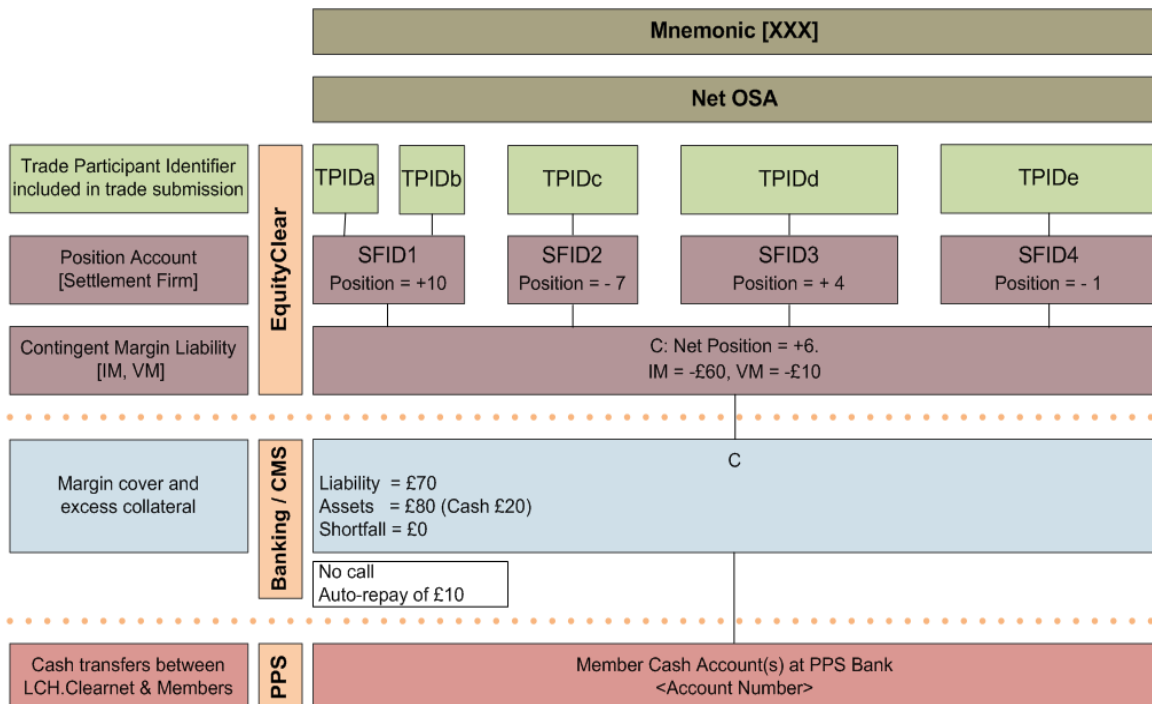
⁷ Only required in EMIR for OTC derivatives but offered in EquityClear for cash equities.

1. Omnibus client segregation

The diagram below shows an example client account structure of a clearing member where all the client business is cleared through the client member account, also identified as a 'Net OSA' (Omnibus Segregated Account).

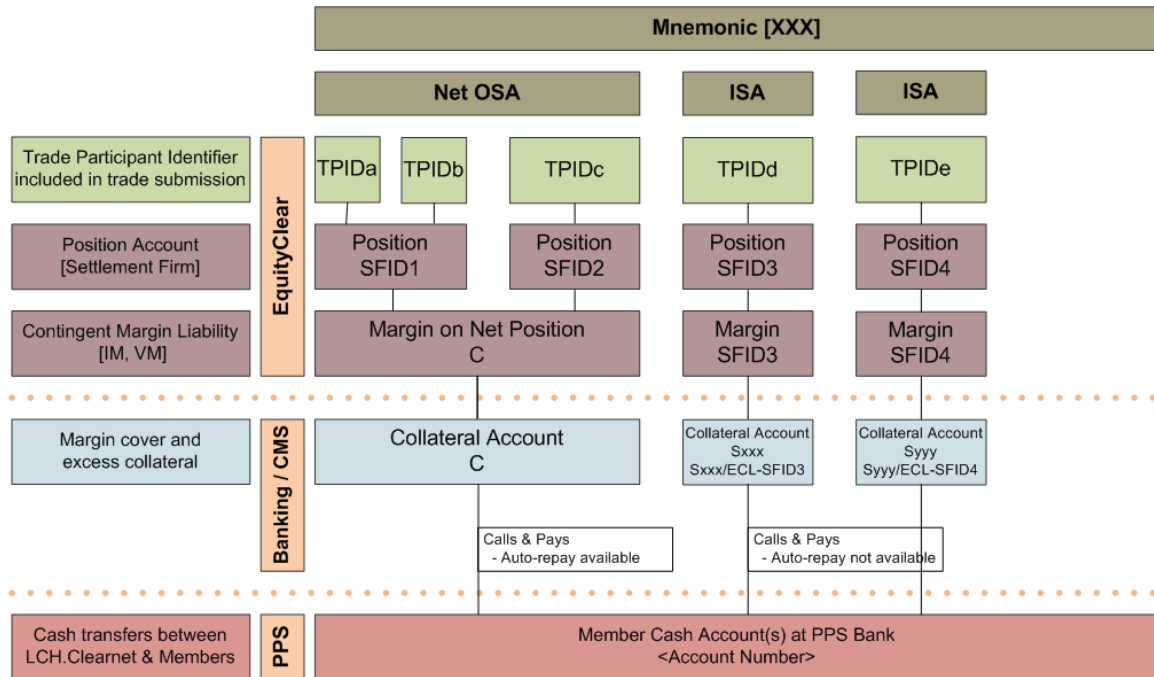


In EquityClear the only actual accounts are the Settlement Firms (position accounts). In the example four are shown. The positions from all the position accounts are netted together to provide an omnibus position for the purposes of calculating the associated margin liability. This liability is sent to the Banking system as being against the omnibus client member account ('C'). An example is shown below for the above scenario.



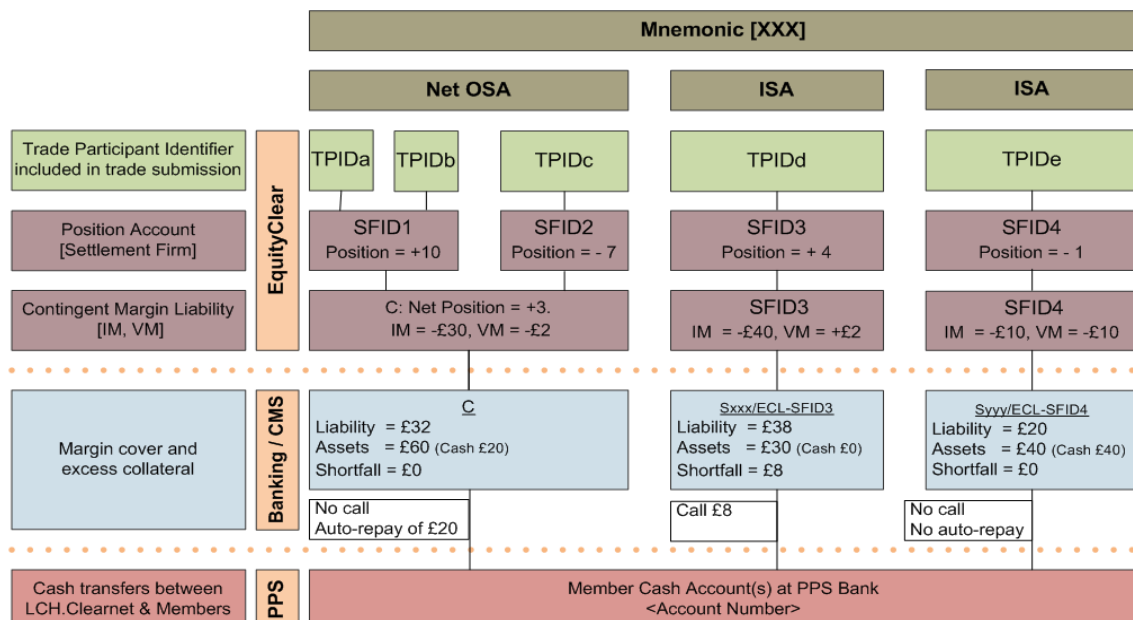
2. Individual client segregation

The diagram below is as the previous example but where the clients' whose positions are held in Settlement Firms SFID3 and SFID4 have elected to have their positions individually segregated, identified on the diagram as ISAs (Individually Segregated Accounts).



Only the positions in Settlement Firms SFID1 and SFID2 are netted together to provide the omnibus position for the purposes of calculating the associated margin liability.

The positions in SFID3 and SFID4 are used to calculate the margin liability for these accounts individually. The liabilities for SFID3 and SFID4 are sent to the Banking system as being against the corresponding individual collateral accounts Sxxx and Syyy. An example is shown below for the above scenario.

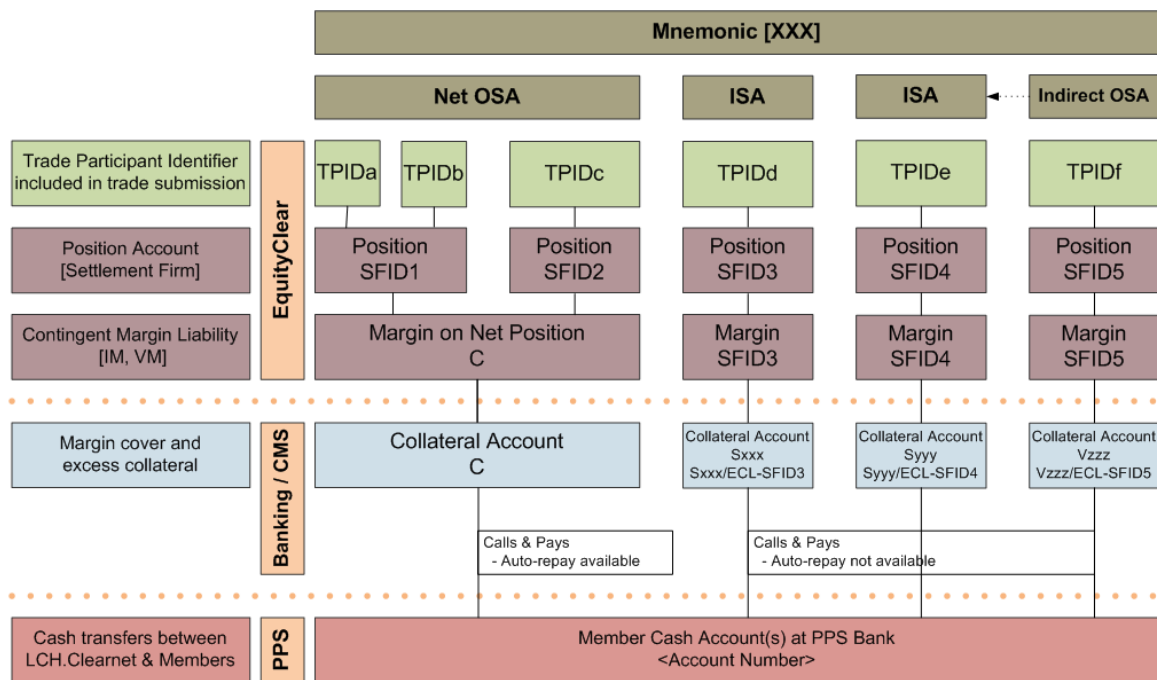


3. Indirect client segregation

The diagram below is as the previous example but where the (indirect) clients of the client using SFID4 want their positions segregated from those of the client. To do this the new Settlement Firm SFID5 is created to hold the segregated indirect client positions, which could be for one, some or all these clients. SFID5 is identified as an Indirect OSA on the basis that it could hold the positions of more than one indirect client.

It is important to note that in order to segregate the indirect client positions the trades of these clients must be executed using a different Trade Participant identifier on the trading platform.

SFID4 holds the positions of the client and any of the indirect clients who did not opt for indirect client segregation.



The positions in SFID5 are used to calculate the margin liability for this account which is then sent to the Banking system as being against the corresponding individual collateral account Vzzz.

In the collateral systems the account IDs are differentiated, with ISA IDs starting with an 'S' and Indirect accounts starting with a 'V'.

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, or CREST for UK and Irish equities.

Trade Management

EquityClear is a mature service which provides flexibility to trade sources⁸, 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:

- α The security has not been agreed to be cleared by LCH.Clearnet.
- α 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 to avoid the need to reject the trade.

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 instruction⁹.

Trade enrichment

The obligations arising from each trade must be:

- α risk managed in a specific member account or segregated client account; and
- α settled in a specific account in the appropriate CSD and a specific bank cash account where required.

EquityClear allows clearing members to define which accounts to use.

Change of dealing capacity from agent to principal

Members can instruct EquityClear to treat trades received with a dealing capacity of agent as principal trades. This is defined in reference data, and is set by trade system participant and trade source.

⁸ A separate document is available to trade sources interested in connecting to the EquityClear service. This provides details of the business and technical interface.

⁹ In some cases trade corrections are processed as cancellations.

The dealing capacity will be shown on trade confirmations and trade reports as 'agent' to accurately reflect how the trade was received but in all other respects will be processed and reported as if it had been received with a dealing capacity of principal. The primary application of this facility is to enable settlement netting.

Member accounts & client segregation

Each trade to be cleared is identified as having a dealing capacity of principal or agency and optionally identified with a clearing sub-account¹⁰.

Members define through reference data the margin account through which each trade is to be cleared. It is defined for each combination of:

- α Trade source
- α Settlement firm
- α Dealing capacity
- α Sub-account (optional)

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

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

The first two rows show the case where no sub-account is provided on trades and the rest where it is provided. It can be seen in the fifth row that the sub-account defined by the member is different from the one provided on the trade. This caters for the situation where an NCP may incorrectly mark a trade to be cleared through the house clearing account whilst the GCM wants all the NCP's business cleared through their client clearing account. In this way the GCM can auto-correct the NCP's mistake.

Members can further define through reference data that the positions in a Settlement Firm are to be segregated from the omnibus client account. This Settlement Firm then operates as either an ISA or Indirect OSA as described in the Position Management section above.

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.

¹⁰ In general the clearing account is not identified on the trade message. This may be because the trade source does not provide the facility to do so or the Trading Participant chooses not to provide it.

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

Where LCH.Clearnet is asked to instruct net settlements into CREST it will operate as a CREST Stamp Data Provider (SDP) and will send the constituent trades as Stamp Assessed Trades (SATs) into the CREST Stamp Duty Assessment Service.

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 information can be found on our website at http://www.lchclearnet.com/risk_management/.

Margin Calculation

EquityClear uses the Equity Risk Analysis (ERA[®]) 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 prudence¹¹.

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 collateral account across all LCH.Clearnet services, be that an omnibus account or a client segregated account.

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.

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. Members can use these to replicate the ERA calculations either on live positions or on portfolios they may wish to test.

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

¹¹ 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.

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.

Full details of acceptable currencies and collateral can be found on our website at 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.

Default Fund

All positions managed through the EquityClear Service (cash equities and CFDs) and listed equity derivative positions are covered by a common Default Fund.

CCP Interoperability

Where a trade is made/matched between two parties on a trade platform (exchange, MTF or OTC matching service) and each party chooses a different CCP to clear their trade then a balance contract automatically arises between the two CCPs on the same terms to ensure that each party retains a balanced book. The two CCPs are therefore said to 'interoperate' in managing the risk and settlement obligations arising between them.

The rights and obligations between interoperating CCPs are governed by a 'Master Clearing Link Agreement' and 'inter-CCP procedures'.

Each CCP has the risk that a CCP with which it interoperates goes into default. Each CCP is required to apply the same daily risk management methodology it applies to its interoperable CCP positions as it does for its member positions. However CCPs do not contribute to each other's default funds.

Therefore interoperating CCPs call margin from each other on a daily basis (end-of-day and intra-day where necessary). CCPs are required to fund these calls by taking specific additional collateral from their members. LCH.Clearnet collects the additional collateral required by applying a multiplier to the end-of-day initial margin. The multiplier is recalculated each day based on the actual positions held against each interoperating CCP and is available in the ERA parameter files on the LCH.Clearnet website. Where there is a shortfall between the additional collateral collected and the actual calls made by the interoperating CCPs then a further call is made on members in the morning, again on a pro rata basis to the previous end-of-day initial margin. Where intra-day calls are made by an interoperating CCP then further additional intra-day calls may be required on members.

If a CCP defaults, the collateral provided by its members to meet inter-CCP calls is at risk, as required to cover losses arising from the close out of the open positions by the non-defaulting CCPs.

Each CCP holds collateral to cover inter-CCP risk at Clearstream Luxembourg and meets calls against it from the other CCPs through pledge arrangements.

A CCP can treat another CCP as a defaulter in a limited but appropriate range of circumstances (including, most importantly, insolvency) and manage the defaulting CCP's open balance contract positions with it in accordance with its own default rules. As interoperating CCPs do not contribute to the LCH.Clearnet default fund, the members' mutualised risk in the default fund is reached sooner than for a member default.

Each CCP retains the ability under its own published rules to reject trades which do not meet its eligibility criteria. Therefore, where either CCP rejects a trade, each member leg of the transaction and the corresponding balance contract between the parties falls away to ensure that each CCP retains a balanced position.

Each CCP can suspend its obligation to continue clearing new trades and becoming party to new balance contracts with another CCP in a defined range of emergency and other situations so as to manage its ongoing risk exposure.

Settlement Management

Settlement Netting

Net, aggregate and gross settlement options are available.

Netting is the sum of buys and sells together. Aggregation is the sum of buys and the separate sum of sells. Aggregation ensures that settlement is always delivery versus payment.

Netting and aggregation options are offered on a trade date net (TDN) basis.

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

- α Contractual terms:
 - Equity (ISIN)
 - Primary market (optional – on request by a member)¹²
 - Settlement currency
 - Intended settlement date (ISD)
- α Settlement accounts, for both parties:
- α Trade & clearing parameters:
 - Trade date
 - Settlement Firm
 - Dealing capacity (Principal or Agent)
 - Clearing member account
 - Trade source

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

| Outcome | Description | Stock | Cash |
|---------|--------------------------------|----------|----------|
| 1 | Delivery versus payment (DVP) | Deliver | Receive |
| 2 | Receipt versus payment (RVP) | Receive | Deliver |
| 3 | Delivery free of payment (DFP) | Deliver | Net to 0 |
| 4 | Receipt free of payment (RFP) | Receive | Net to 0 |
| 5 | Cash payment (CPO) | Net to 0 | Deliver |
| 6 | Cash receipt (CRO) | Net to 0 | Receive |
| 7 | Delivery with payment (DWP) | Deliver | Deliver |
| 8 | Receipt with payment (RWP) | Receive | Receive |
| 9 | Null settlement | Net to 0 | Net to 0 |

¹² This facility is available for members where separate netting of dual listed ISINs is required. Generally this happens naturally as the CSD for each line will be different. However, for several Irish securities there is both an 'XDUB' (Irish Stock Exchange) and 'XLON' (London Stock Exchange) line both of which settle in CREST. This facility ensures these lines of the same ISIN and currency are netted separately.

Outcomes 1-2 are considered to be 'standard nets', involving the delivery of stock against payment. Outcomes 3-9 are considered to be 'non-standard nets'. Outcomes 5-8 involve a cash payment not against a stock delivery. Where such nets arise from settlements due in CREST, SIX SIS or Euroclear Bank the settlement of the cash payment will take place in the CSD. In all other cases the cash payments will be settled by standard interbank transfer, hence outside the CSD. For settlement participants who are unable to support full netting or prefer not to use it three aggregation options are provided.

The following table shows the nine possible outcomes from settlement netting and whether Netting (N) or Aggregation (A) would be performed in each case for each of the following four netting/aggregation options.

- (1) Net in all cases.
- (2) Aggregate in all cases.
- (3) Aggregate all non-standard nets.
- (4) Aggregate only non-standard nets involving cash payments.

| Outcome | Description | Stock | Cash | (1) | (2) | (3) | (4) |
|---------|--------------------------------|----------|----------|-----|-----|-----|-----|
| 1 | Delivery versus payment (DVP) | Deliver | Receive | N | A | N | N |
| 2 | Receipt versus payment (RVP) | Receive | Deliver | N | A | N | N |
| 3 | Delivery free of payment (DFP) | Deliver | Net to 0 | N | A | A | N |
| 4 | Receipt free of payment (RFP) | Receive | Net to 0 | N | A | A | N |
| 5 | Cash payment (CPO) | Net to 0 | Deliver | N | A | A | A |
| 6 | Cash receipt (CRO) | Net to 0 | Receive | N | A | A | A |
| 7 | Delivery with payment (DWP) | Deliver | Deliver | N | A | A | A |
| 8 | Receipt with payment (RWP) | Receive | Receive | N | A | A | A |
| 9 | Null settlement | Net to 0 | Net to 0 | N | A | A | N |

Flexibility is provided in that the netting/aggregation option can be chosen separately for each combination of Settlement Firm, Dealing Capacity (Principal or Agent), CSD and Trade Source.

Cash payments due to settle via interbank transfer are further netted¹³ overnight prior to settlement date (ISD-1) on a per currency basis. That is, there will be no more than one cash payment required between a Settlement Firm cash account and LCH.Clearnet per currency per day.

The exception is that cash payments arising from corporate events are excluded from this process. Generally these are settled automatically within the relevant CSD but where this is not the case, e.g. Italy, the payments will continue to be settled separately.

Gross settlement is supported for any trades settling in CREST, SIX SIS and Euroclear Bank.

¹³ Netting is applied across cash positions arising from principal and agency trades.

Settlement Instruction

A number of settlement instruction methods are used dependent on the (I)CSDs¹⁴ and markets.

SIX SIS (SegalInterSettle)

LCH.Clearnet will instruct all settlements in SIX SIS on behalf of members using power-of-attorney arrangements.

Euroclear Bank

LCH.Clearnet will instruct all settlements in Euroclear Bank on behalf of members using power-of-attorney arrangements.

Euroclear UK & Ireland (CREST)

LCH.Clearnet will instruct all settlements into CREST as a Central Sponsor. Members can use the CREST Direct Input service to choose how they want their settlements created, 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.

Other CSDs (Pan-European)

Except as specifically described above the following process will apply:

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

The option is provided to have the matching settlement instruction generated by EquityClear and sent over SWIFT to the member or their settlement agent, who can then forward it to the CSD without having to prepare the instruction themselves. This is equivalent to the power of attorney instruction directly into a CSD.

The top six net 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 payment or stock delivery due, will not be instructed for settlement.

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

Settlement Location

No choice of settlement location may be made, each trade settling in a predetermined CSD. This CSD is generally the one with the highest liquidity or the one which is appropriate to the underlying market.

EquityClear provides the necessary flexibility:

- α 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 EU.

¹⁴ 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.

- Royal Dutch Shell in euro (EUR) can settle in Euroclear Netherlands.
- α Trades in the same equity and settlement currency may be settled in different locations per trade source.
- α Trades from the same trade source (e.g. an MTF) for the same equity and settlement currency can be settled in different CSDs in the case where equities listed on more than one primary market are being mirrored. E.g.
 - ST Microelectronics for Euronext Paris in Euroclear France, and
 - ST Microelectronics for Borsa Italiana in Monte Titoli.

Settlement Details

Members specify the following settlement details:

- α Settlement Agent (e.g. CREST Settlement Participant, SIS Business Partner)
- α 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
- α Settlement netting preference
 - Gross, net or aggregation option, where applicable

The settlement details are specified for each combination of:

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

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 CSDs¹⁵ 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.

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.

¹⁵ E.g. Euroclear UK & Ireland (EUI), SegalInterSettle (SIS), Euroclear Bank

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 is initiated 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.

Administration Fee

LCH.Clearnet will charge an administration fee for processing a buy-in. The administration fee will appear as an item on the associated member's monthly clearing invoice.

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

LCH.Clearnet charges fines for settlement fails as required by European Regulation from 1st November 2012.

CSDs may have a fail fines regime in place. Where LCH.Clearnet is charged for its fails, these charges will be passed through to failing members.

Corporate Actions

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 member's volume the lower their average fee. Details can be found on our website: <http://www.lchclearnet.com/members-clients/members/fees-ltd/transaction-related-fees>

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 monthly in arrears from members using the PPS system.

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.

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

Messages can be received over SWIFT or over the managed network service provided by BTRadianz..

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.

Reports

EquityClear provides a full suite of reports for its clearing members, including margin reports, trade reports, settlement netting reports and fees volume reports.

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.

Treasury reports

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

Fee Invoices

Clearing fees and settlement charges are invoiced monthly on separate invoices. The invoices are posted to the member reporting website.

Connectivity

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

- α Managed Network Service, provided by BT Radianz
- α 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 |
| EMIR | European Market Infrastructure Regulations |
| ERA | Equity Risk Analysis |
| EU | European Union |
| EUI | Euroclear UK & Ireland |
| EUR | Euro |
| 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 |
| MTF | Multilateral Trading Facility |
| NCP | Non Clearing Participant |
| OTC | Over-the-counter |
| PPS | Protected Payments System |
| RIE | Recognised Investment Exchange |
| RMO | Recognised Market Operator |
| SDRT | Stamp Duty Reserve Tax |
| SIS | SegaInterSettle |
| T | Trade Date |
| TDN | Trade Date Net(ting) |