

EnClear Futurisation

Overview

- All EnClear products (except Emissions) will be reclassified as Block Futures- proposed go live date is end October 2014, subject to regulatory approval in response to market and clearing member feedback
- The EnClear products in scope are Coal, Fertilizer, Container Freight, FFAs, Iron Ore and Steel
- The initiative is another example of LCH.Clearnet's commitment to working with multiple exchanges and venues on its open, horizontal platform
- In order for the contracts to be Block Futures, they must be subject to the rules of an Exchange
- LCH.Clearnet plans to use 2 exchanges initially for the registration of Block Futures:
 - Baltex (an MTF owned by the Baltic Exchange)
 - Cleartrade Exchange (CLTX, an RMO licensed in Singapore)
 - Additional Exchanges may be added in due course
- Baltex- clearing members will be required to sign up as Principal Members or Clearing Members of Baltex for their client trades to be blocked in through Baltex
- Cleartrade- clearing members do not need to sign up to the Exchange, the membership will be covered by the Executing Brokers
- It is intended that Block trades from all exchanges will flow into one pool of open interest at LCH.Clearnet, and all will be fully fungible

Trading venues

Baltex

Baltex is a multi-lateral trading facility operated by Baltic Exchange Derivatives Trading Limited (“BEDT”), a wholly owned subsidiary of the Baltic Exchange. BEDT is authorised by the FCA to operate Baltex under firm reference 541375. Permitted instruments include Commodity Futures and Options. Baltex was launched in June 2011 to provide a central independently run electronic platform for trading dry bulk freight derivatives (FFA’s) and related instruments. Baltex lists freight futures with identical economic characteristics to the contracts currently cleared by LCH. Baltex will provide a block futures facility to allow bilaterally negotiated agreements in its contracts to be entered into Baltex as off- exchange freight futures. Once these have been cleared by LCH, they will be published on Baltex as a block futures trade. Block futures will be subject to the Baltex Trading Rules.

Cleartrade

Cleartrade Exchange (“CLTX”) is a regulated futures exchange operating as a Recognised Market Operator (“RMO”) under the governance of the Monetary Authority of Singapore (“MAS”) and in accordance with the Singapore Securities and Futures Act (“SFA”). CLTX offers an electronic order book with a suite of over 40 different derivative contracts, including all the EnClear products. CLTX also offers a block trade facility, with straight through processing to LCH.Clearnet. CLTX is incorporated in Singapore with offices in London.

CLTX will provide a block futures facility to allow bilaterally negotiated agreements in EnClear contracts to be entered into CLTX as off- exchange futures. Once these have been cleared by LCH.Clearnet, they will be published on CLTX as a Block Futures trade. Block futures will be subject to the CLTX Trading Rules.

Clearing member tasks to be undertaken for go live

- Clearing members will need to sign Membership documents/static data forms with Exchanges, as required
- There will be minimal IT work for Members- all clearing processes will remain the same ie Clearway and ECS will continue to be used. There will be some small changes to intraday and EOD trade reports- 2 extra columns will be added indicating which exchange the trade has been blocked through and the execution timestamp (please see next slide)
- No member testing is required- Members will shortly receive a copy of the new format of reports
- Modified Rules will be put out to Members for consultation in September
- There will be no change in margining methodology or payment processes for clearing members.
- Clearing members will need to open LCH.Clearnet position accounts for their FCM's and their US customers, ready for migration in line with the CFTC's Part 30 regulation
- LCH.Clearnet will publish a plan for the migration of positions from FCM's to clearing members

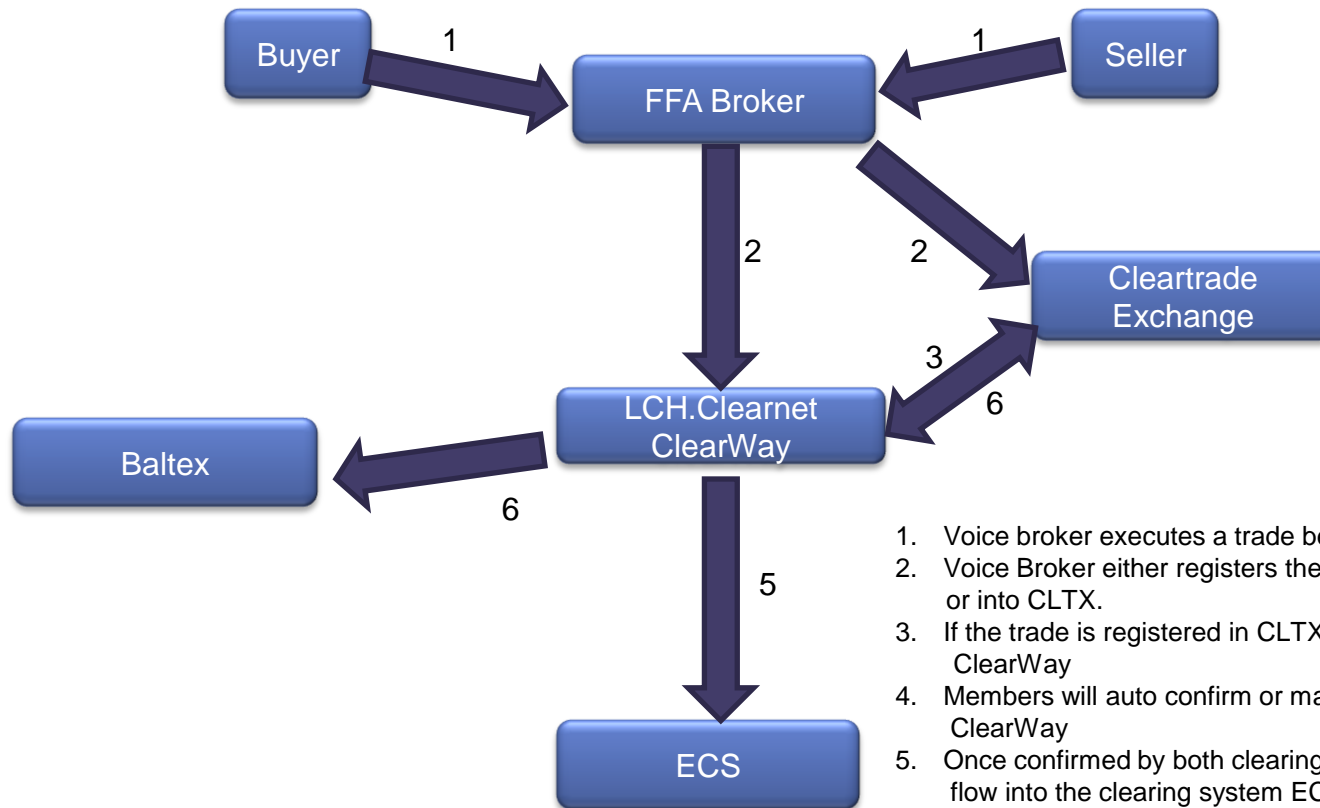
Changes to Member reports

Field	Format	Remarks
business_day	Char(8)	Business date in format YYYYMMDD
Member	Char(3)	LCH.Clearnet member mnemonic
Account	Char(1)	C or H (Client or House)
position_account	Varchar(32)	Member position account
is_long	Char(1)	Identifier of direction of trade Y = long, N = short.
contract	Varchar(32)	The contract entered on the ticket
quantity	Numeric	Number of lots
price	Numeric	Entered price
tkr_status	Varchar(12)	Overall ticket status. One of REGISTERED, PENDING, CPY_PENDING, CANCELLED, ACCEPTED, REJECTED, CPY_REJECTED, FAILED
buy_side_status	Varchar(10)	Buy side ticket status. One of ACCEPTED, REJECTED, PENDING, CANCELLED, REGISTERED, FAILED
sell_side_status	Varchar(10)	Sell side ticket status. One of ACCEPTED, REJECTED, PENDING, CANCELLED, REGISTERED, FAILED
ticket_id	Varchar(15)	The LCH generated ticket id
submit_broker	Char(3)	Broker code that entered the ticket (as shown in the 'Source' field in Clearway)
time_submitted	Timestamp (HH:MM)	Time the ticket was first entered in Clearway
Exchange	Char(3)	The exchange to which the trade is alleged
Execution_ts	Timestamp (HH:MM:SS)	Time the trade was executed on the exchange

Block Futures Process

- LCH.Clearnet will have links with multiple Exchanges
- Block Futures must satisfy the following criteria
 - Be subject to the rules of an Exchange
 - Be cleared by a CCP within one working day of execution
- The trading of FFA's will continue to be executed through voice brokers
- The trades will then be blocked in through one of the Exchanges
- Block futures flowing through Baltex will be registered by Brokers through LCH.Clearnet's ClearWay system as now, and will subsequently flow through to Baltex
- Block Futures flowing through CLTX will be registered through CLTX platform and subsequently flow to LCH.Clearnet
- Members will either autoclear the trades in ClearWay by applying the lot limit filter to position accounts, or members can manually accept the trades. The former method is encouraged to enable immediate clearing

Trade Flow



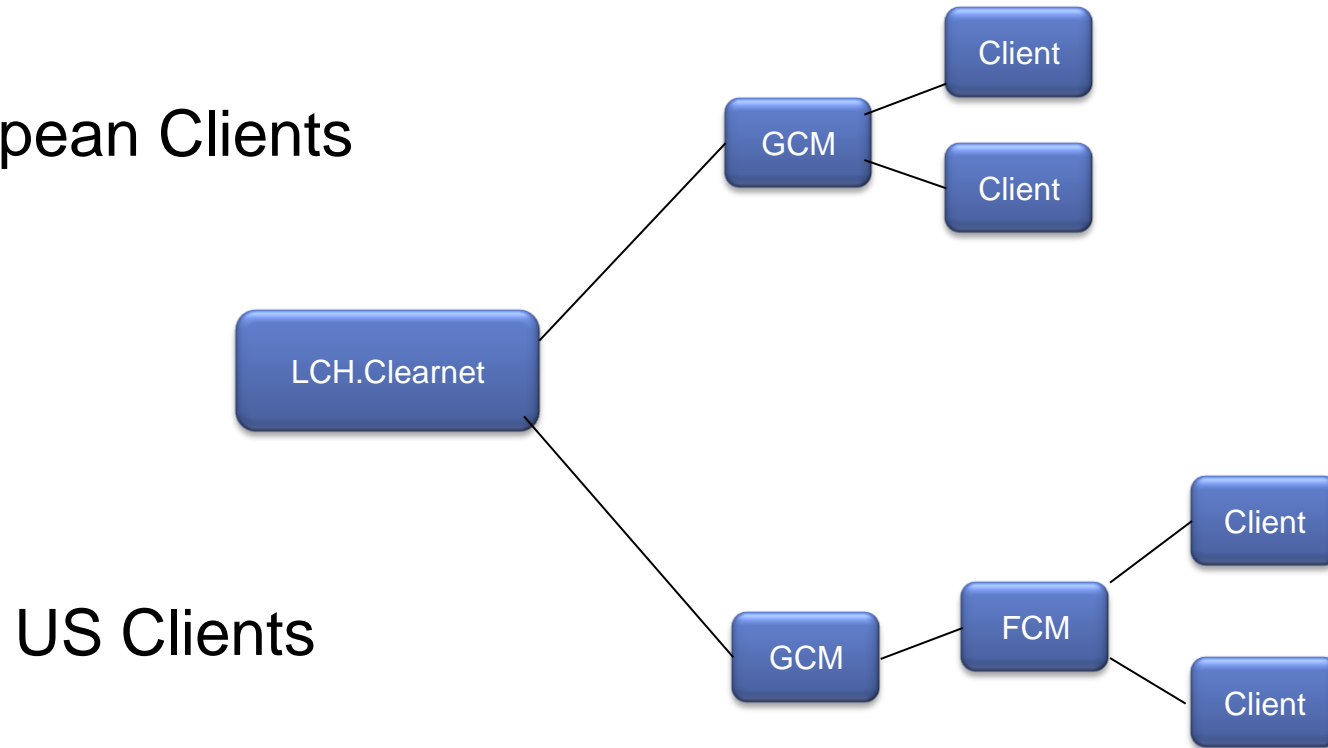
1. Voice broker executes a trade between buyer and seller
2. Voice Broker either registers the trade directly in ClearWay or into CLTX.
3. If the trade is registered in CLTX, that trade will then flow into ClearWay
4. Members will auto confirm or manually confirm all trades in ClearWay
5. Once confirmed by both clearing members, the trade will flow into the clearing system ECS, and be cleared immediately
6. LCH.Clearnet will send details of the trade to the relevant Exchange

Changes for FCMs

- For US customers LCH.Clearnet will clear the contracts as futures executed on a foreign futures exchange in compliance with Part 30 of the CFTC's rules.
- The positions of US customers on these foreign exchanges will be handled by an FCM who will hold an EMIR account with a clearing member.
- FCM's will no longer be required to be clearing members for their US customers
- Where the FCM is not acting as a clearing member of LCH.Clearnet, but a client of the clearing member, the US customer positions will be held in a 30.7 secured customer funds account by the FCM. LCH.Clearnet would hold the clearing member funds in an EMIR account
- Current FCM swaps will be transferred to clearing member as block futures
- All US customers and FCMs will be cleared under the clearing member Rule Book and procedures (including EMIR margining methodology)

Clearing Relationship flow

European Clients



US Clients

FAQ

When do LCH.Clearnet propose to go live?

- We are aiming for an early November, subject to regulatory approval and Member readiness

Will there be changes to the Rule Book?

- Yes, and we will make the revised Rules available for Member consultation shortly

Will the fee structure change?

- The only change to fees is a proposed \$1/lot increase to LCH.Clearnet clearing fees for FFA's

Will there be any changes to the contract specifications or settlement processes?

- The contract specs will remove the reference to 'OTC Swaps'. All other details remain the same, as do settlement processes

How will the migration of FCM client accounts to clearing member accounts occur?

- We will work with FCM's to transfer their US customers across to an FCM account with the clearing member. Detailed processes for this will be provided shortly

What changes will we see to the Member reports?

- 2 extra columns will be added to the intra day and end day reports to show which exchange the trade has been blocked through, and an execution timestamp

Will any documents need to be signed with LCH.Clearnet

- Only new position account opening forms for FCM's moving across to their clearing member

Will both Exchanges allow block futures for all EnClear products?

- No, Baltex will cover Dry FFA's, Cleartrade Exchange will cover FFA's and all other products

What will happen with our EnClear FCM Membership?

- Members may resign their FCM membership for EnClear, and will then receive back their default fund contributions

Contacts

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