

Clearing Bourse de Luxembourg Project

Members Meeting

General Process Presentation

19 October 2007



Agenda

- Trade processing of Luxembourg Stock Exchange
- Trade processing: bilateral scheme overview
 - Processing in Euroclear and Clearstream
 - Bridge processing between ICSDs
- Pass-through trade
- Guaranteed trade with concrete example
 - Account structures
 - CCP process
 - Clearstream and Euroclear view
- Buy-in process / margin calls
- Questions and answers

Definition of acronyms and actors

BdL	Bourse de Luxembourg / Luxembourg Stock Exchange
TMF	Trading Member Firms
CCP	Central Counterparty (LCH.Clearnet SA)
CMF	Clearing Member Firm
GCM	General Clearing Member firm
ICSD	International Central Securities Depository (Clearstream Banking Luxembourg [CBL] and Euroclear-Bank [EB])
ISV	Independent Software Vendor

Trade Processing of Luxembourg Stock Exchange

Financial Instruments of Luxembourg Stock Exchange



Trading Groups

Luxembourg Stock Exchange has classified its financial instruments in 49 Trading Groups according to the following criteria:

- Types of products
- Currency
- Liquidity, etc...



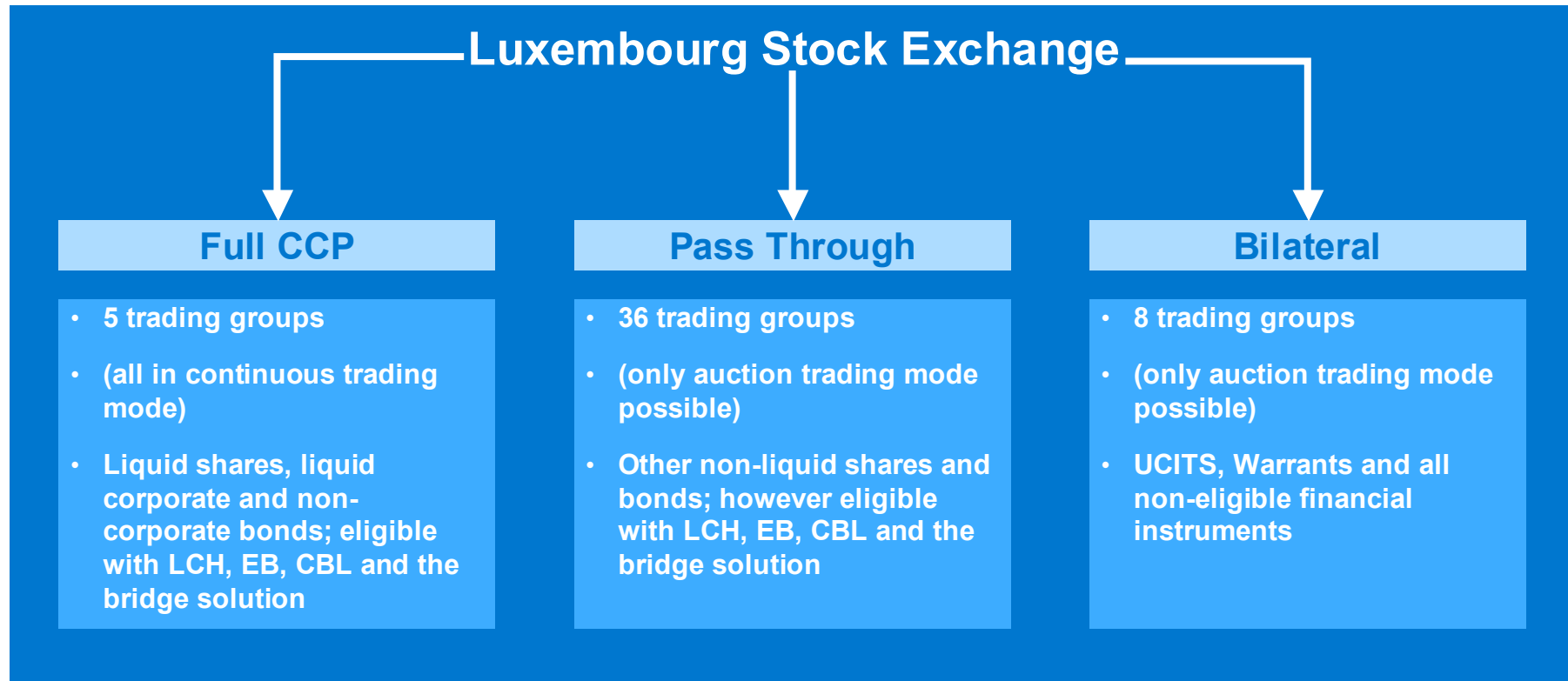
Trading methods (continuous or auction)



Post Trade Model

- CCP services (only for liquid securities or those chosen by a market maker)
- Pass-Through settlement (for non-liquid securities)
- Bilateral (UCITS, Warrants, and all securities which are not eligible with LCH.Clearnet)

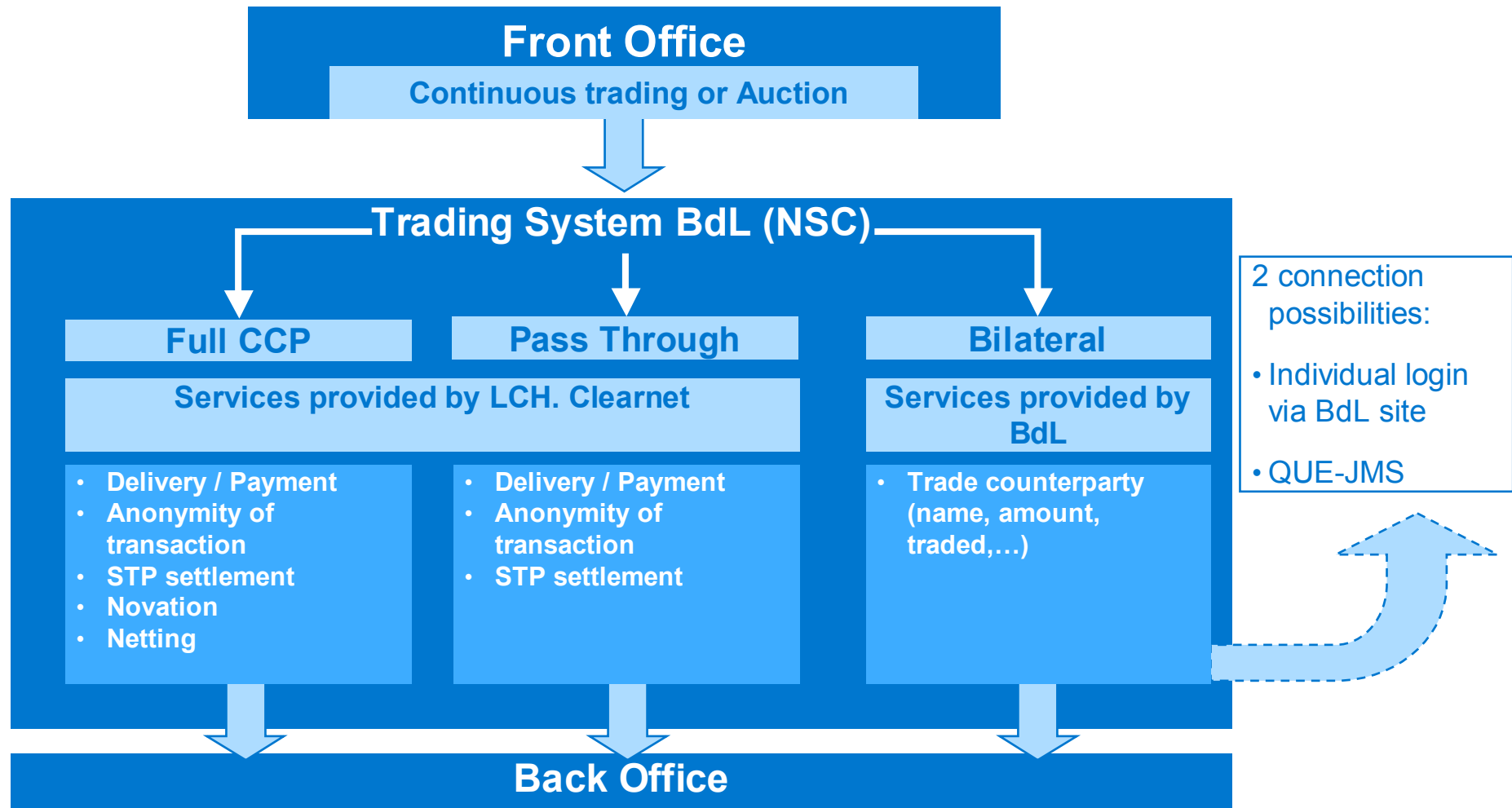
Trade Processing of Luxembourg Stock Exchange



Each security can be traded only in one channel at a time (Bilateral, Pass-through or CCP) according to its trading classification.

However, Luxembourg Stock Exchange and/or LCH.Clearnet can move a security from one group to another according to the liquidity criteria or a market maker request

Trade Processing of Luxembourg Stock Exchange

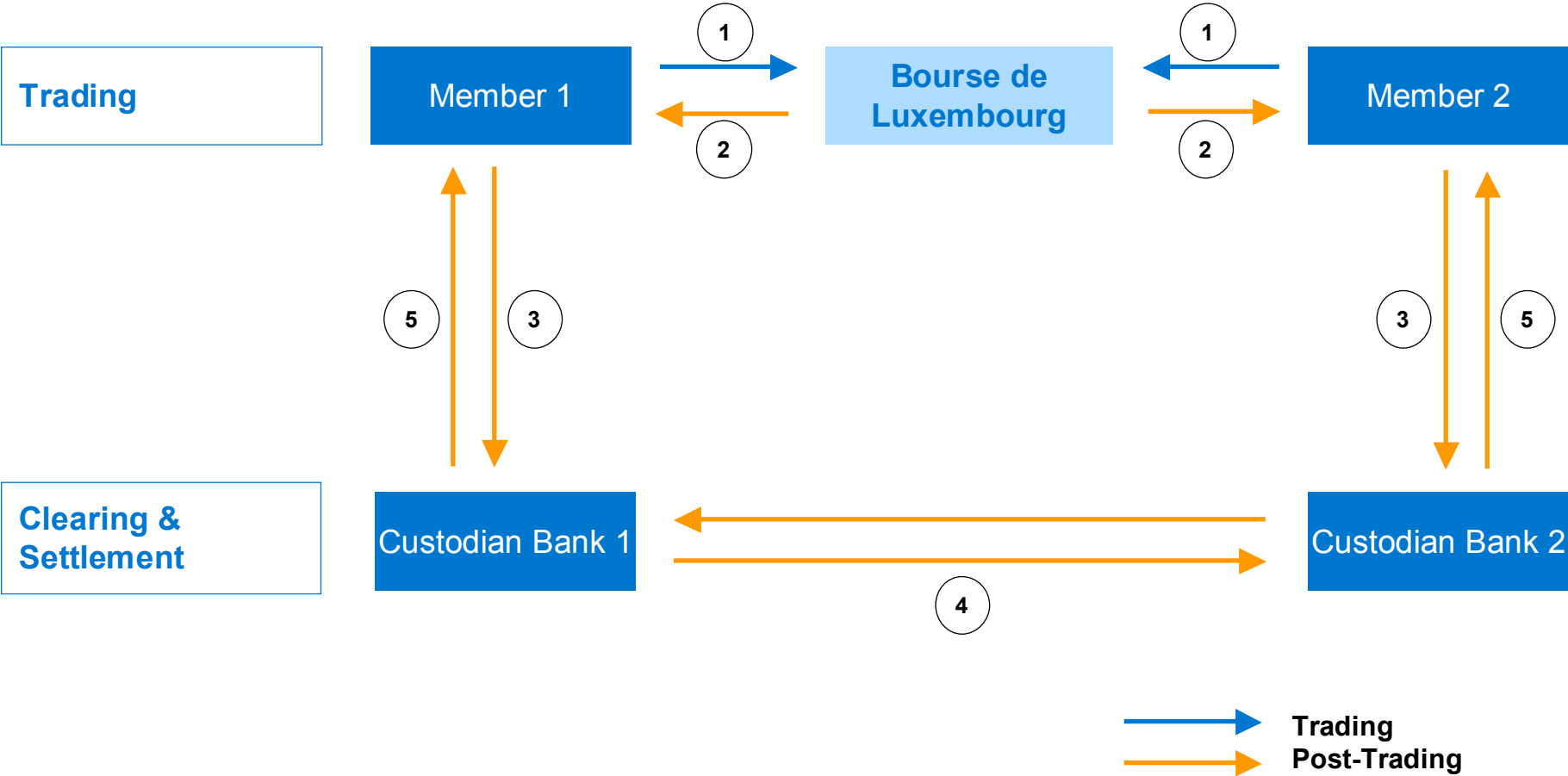


No consequence at trading level. The trading groups' classification impacts only the post trade model.

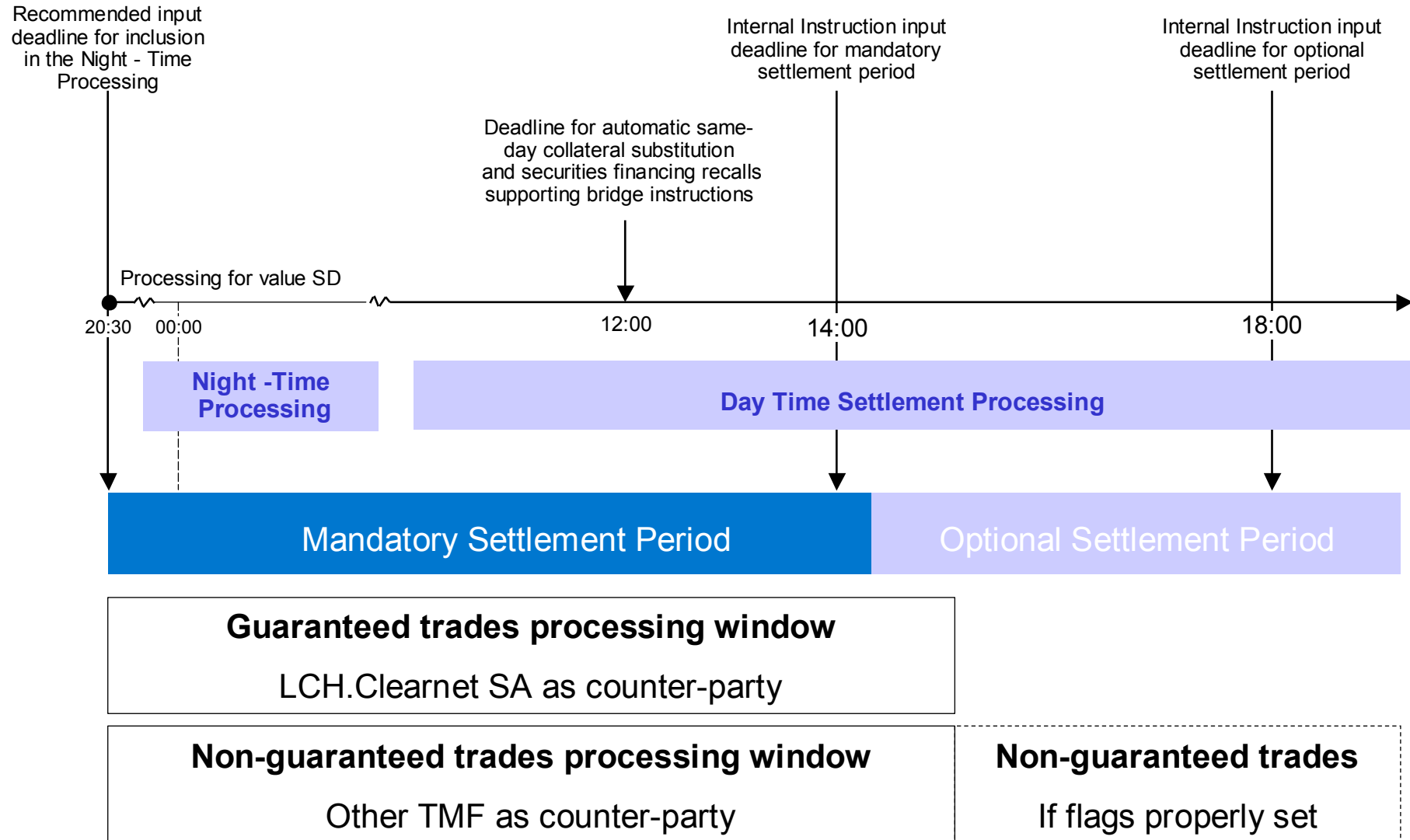
To manage transaction orders, the back office department has to take into account the financial instruments negotiation groups, and as a result, the appropriate post trade scheme

Clearing & settlement

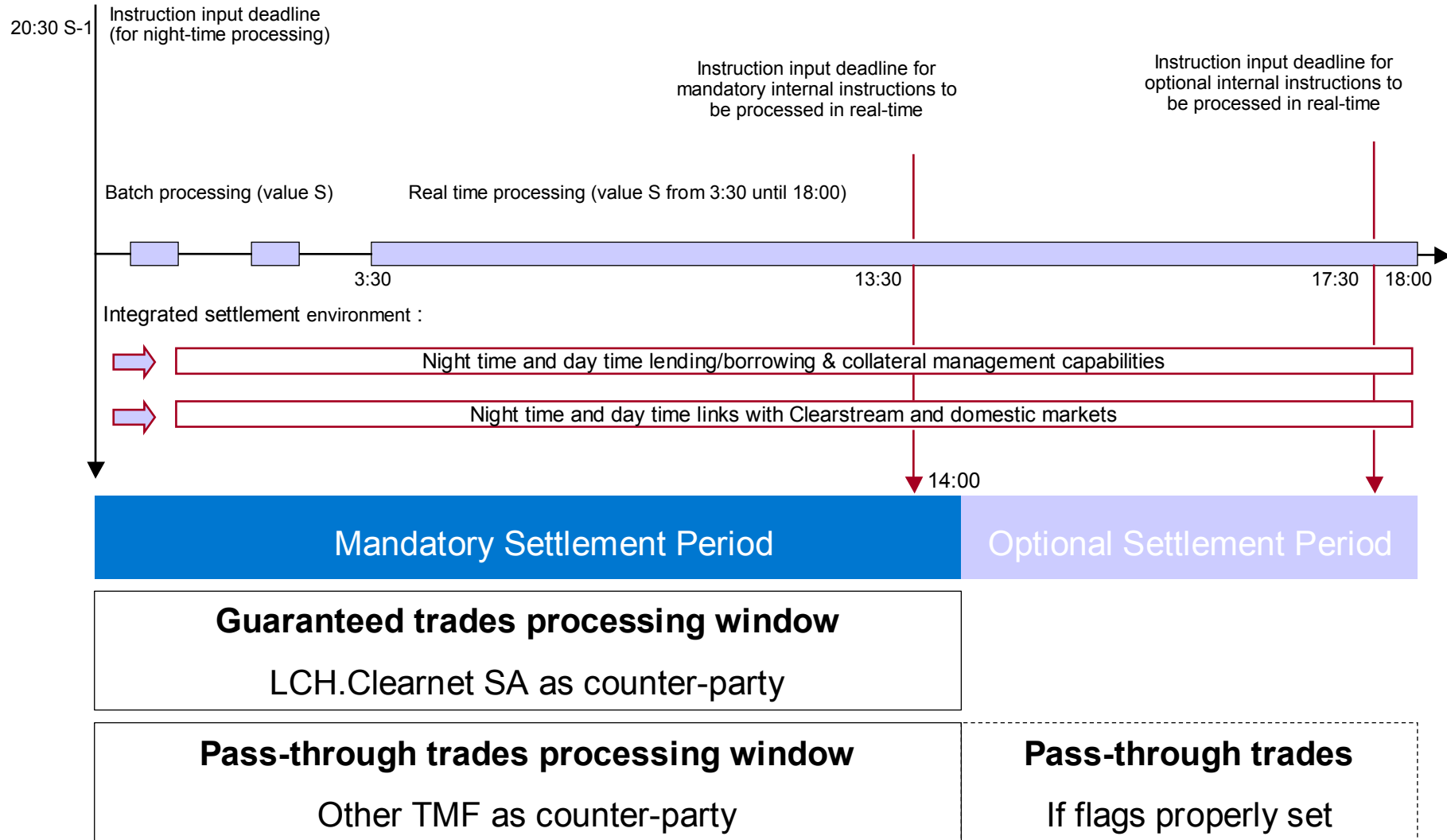
Option – Bilateral Scheme



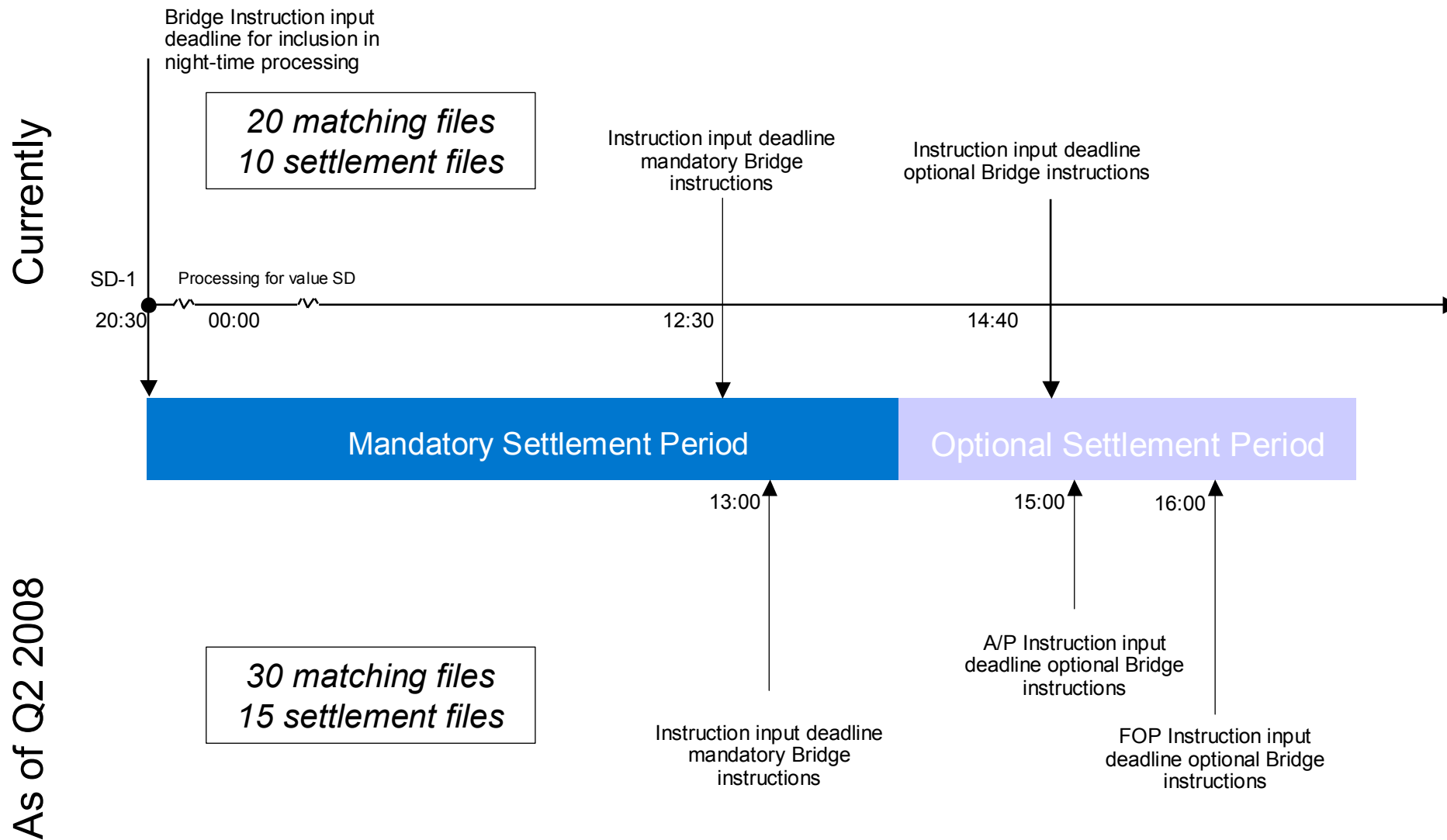
Processing in Clearstream



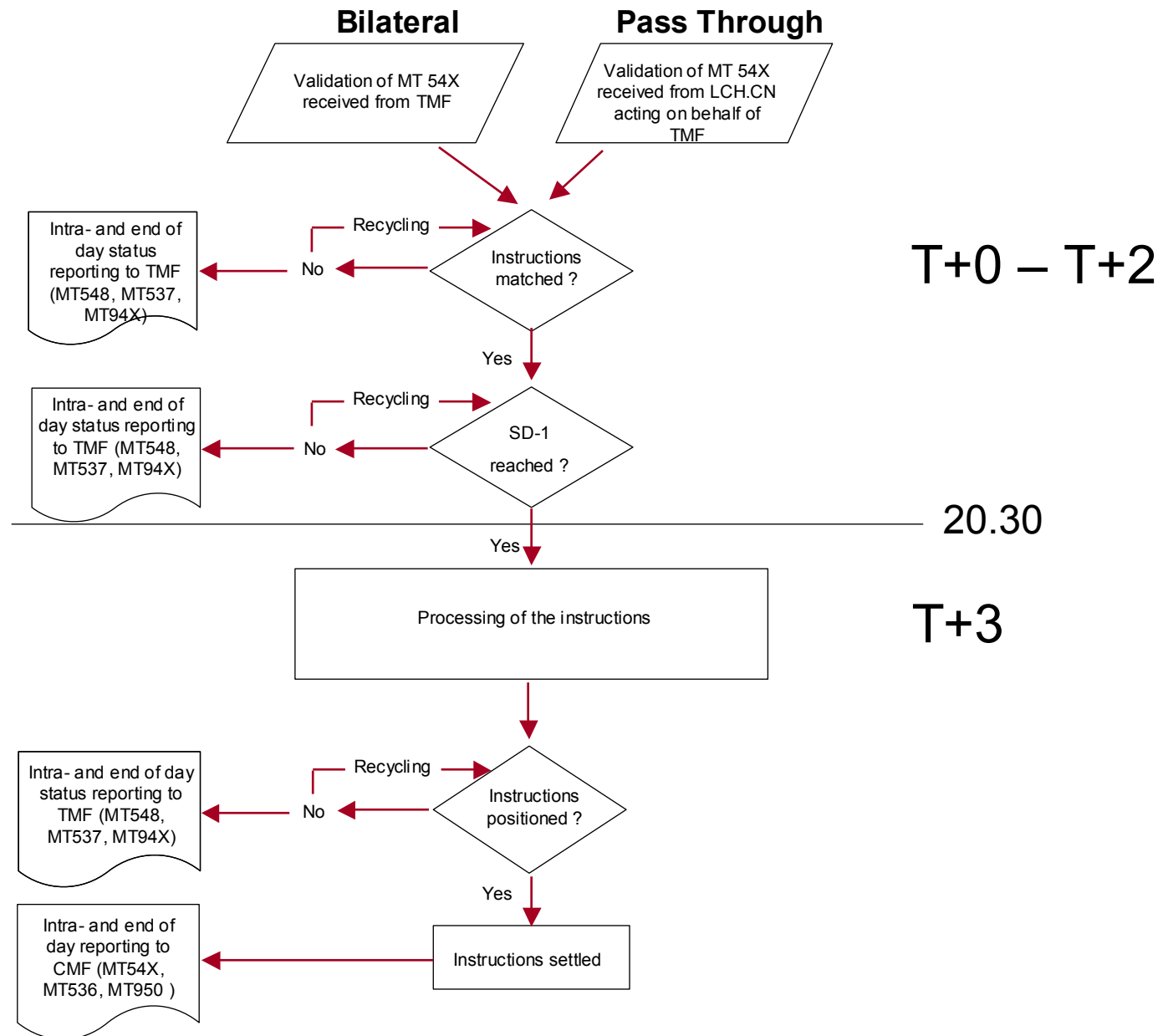
The Euroclear Bank environment



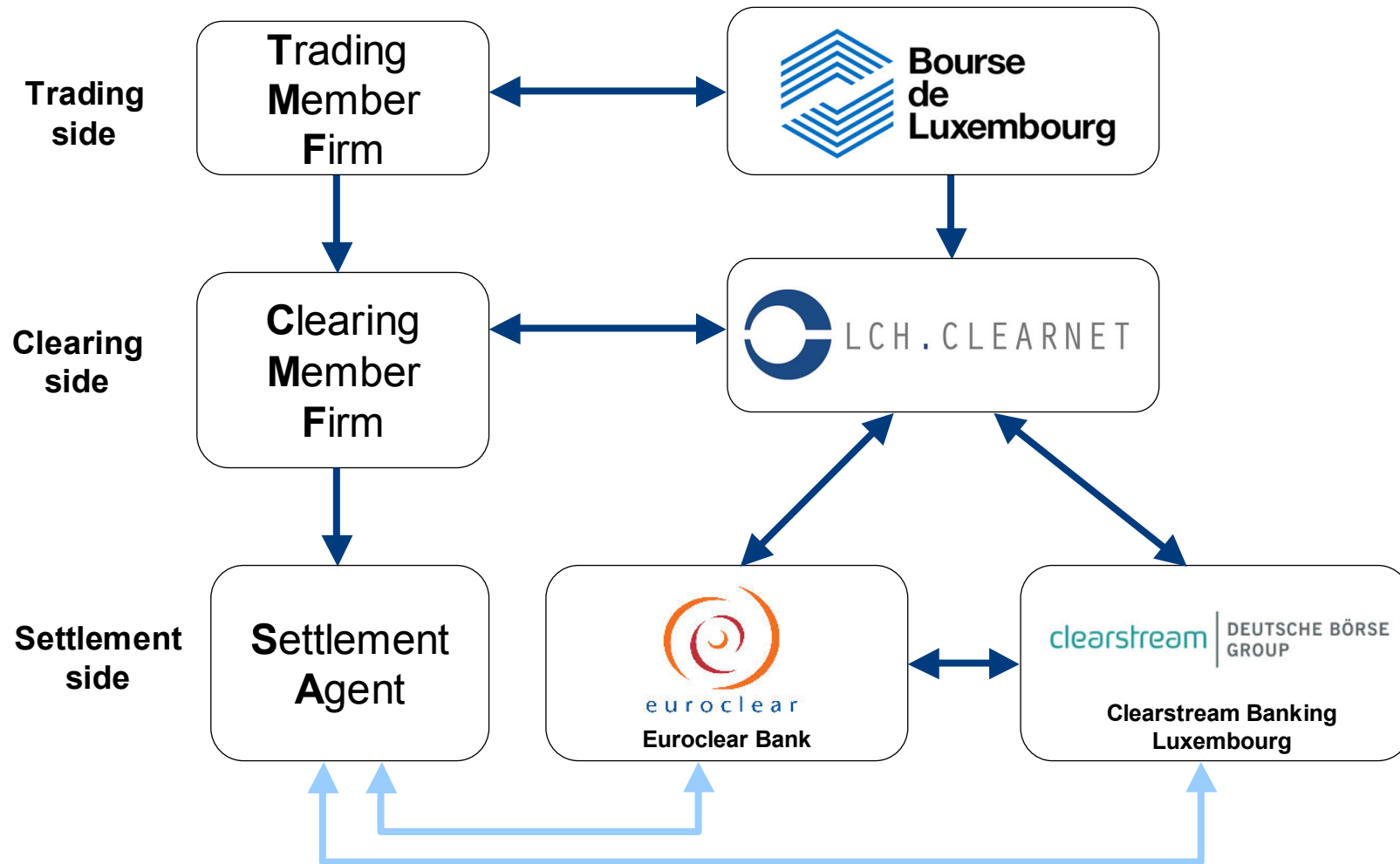
The bridge processing between ICSD's



Bilateral and pass-through settlement

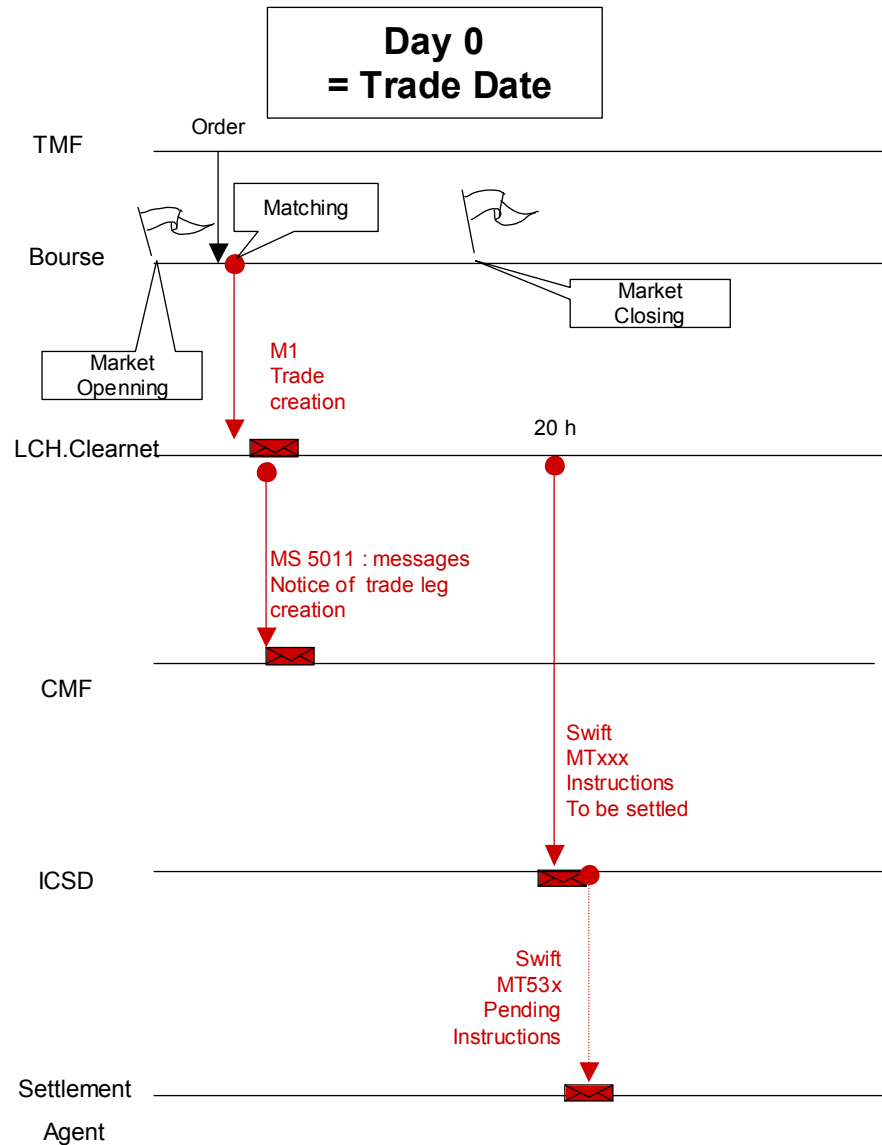


Luxembourg Cash Market Structure and Organisation



Pass-through trade

Typical life-cycle of a pass-through trade (* Timing is not contractual and is given for information)



Files, milestones and messages :



Private files



Private messages

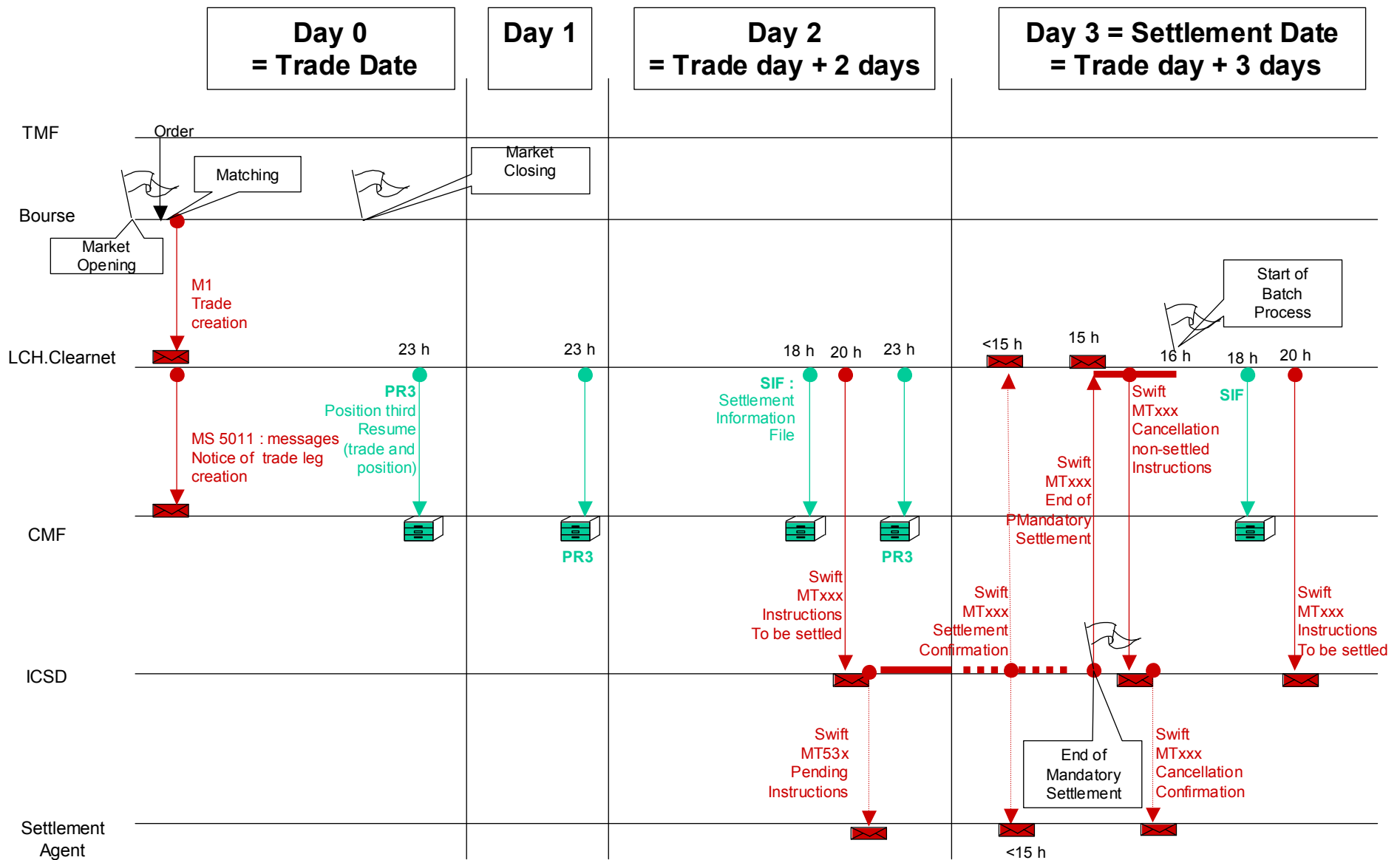


Time Milestones

Guaranteed trade

CCP

Typical life-cycle of a trade (* Timing is not contractual and is given for information)



Files, milestones and messages :



Private files



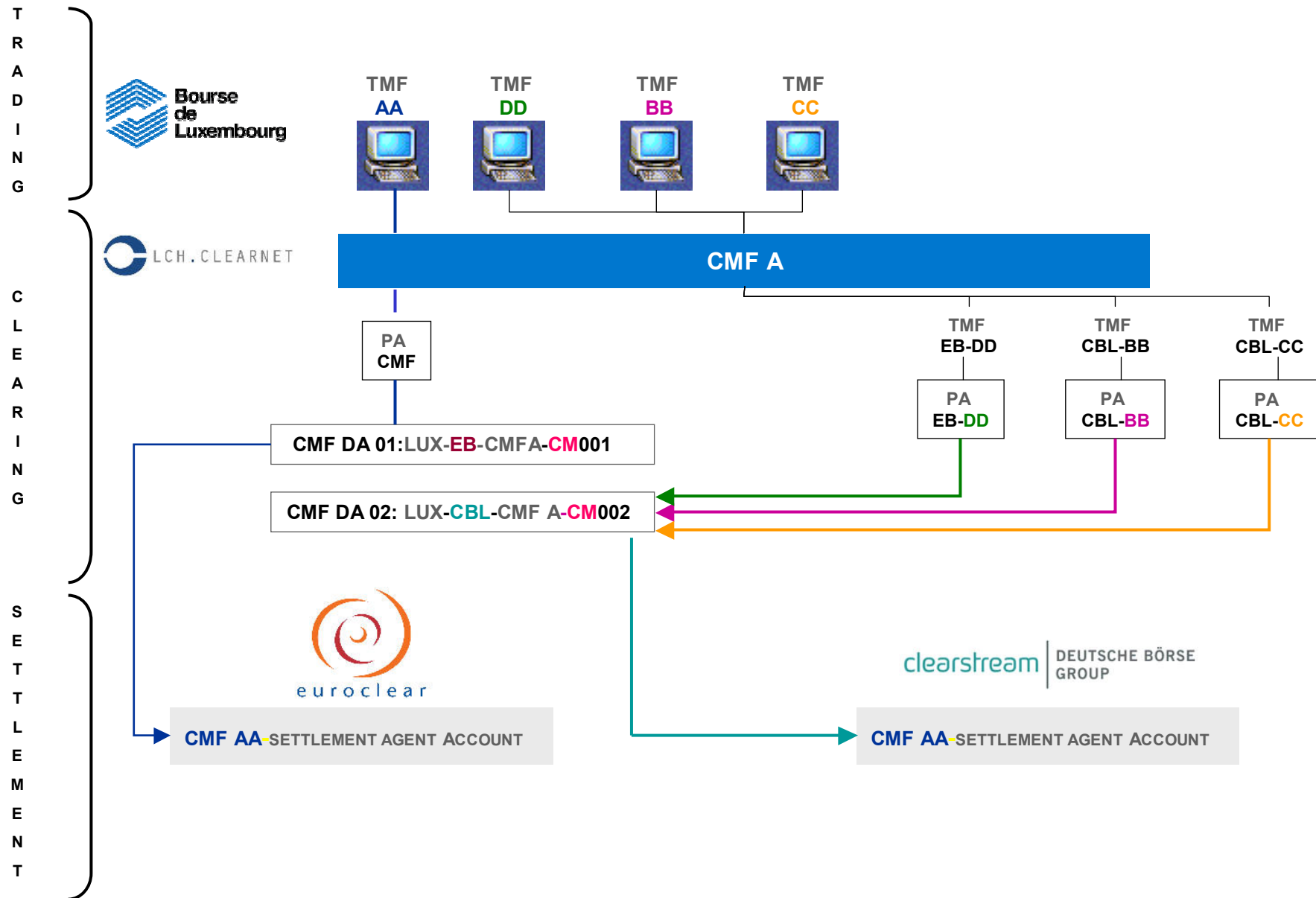
Private messages



Time Milestones

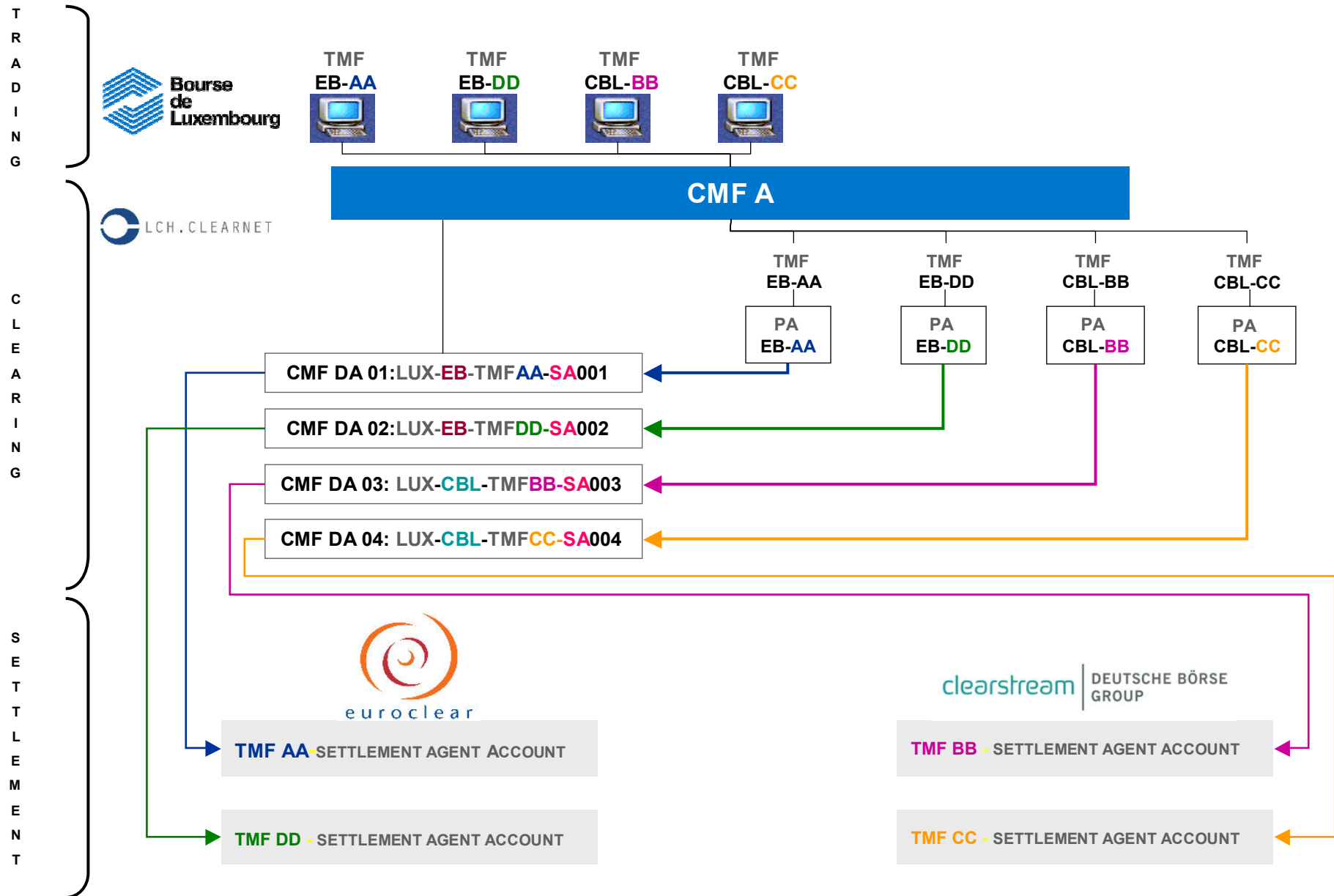
Account structure (1)

CCP



Account structure (2)

CCP



Guaranteed trades

CCP

Examples: Trades to be processed

Day 1 Trades = 15/10/07								
TMF Code (1)	B/S	Isin	Qty	Amount	Trade Date	Settlement Date	Trade ID	Counterparty TMF Code (2)
EB-AA	B	LU0140205948	10	-500	15/10/07	18/10/07	TD 01	EB-xx
CBL-BB	B	LU0061462528	12	-600	15/10/07	18/10/07	TD 02	EB-zz
EB-AA	B	LU0140205948	25	-1500	15/10/07	18/10/07	TD 03	EB-yy
CBL-BB	S	LU0061462528	10	550	15/10/07	18/10/07	TD 04	EB-mm
CBL-CC	S	LU0140205948	100	6000	15/10/07	18/10/07	TD 05	CBL-rr
EB-DD	S	LU0061462528	110	8000	15/10/07	18/10/07	TD 06	CBL-tt
CBL-CC	S	LU0140205948	200	16000	15/10/07	18/10/07	TD 07	CBL-uu
EB-DD	S	LU0061462528	300	20000	15/10/07	18/10/07	TD 08	CBL-ll

Day 0 = 15/10/2007

Day 2 Trades = 16/10/07								
TMF Code (1)	B/S	Isin	Qty	Amount	Trade Date	Settlement Date	Trade ID	Counterparty TMF Code (2)
CBL-CC	B	LU0140205948	20	-800	16/10/07	19/10/07	TD 09	EB-mm
EB-DD	B	LU0061462528	22	-1000	16/10/07	19/10/07	TD 10	CBL-rr

Day 1 = 16/10/2007

Day 3 Trades = 17/10/07								
TMF Code (1)	B/S	Isin	Qty	Amount	Trade Date	Settlement Date	Trade ID	Counterparty TMF Code (2)
CBL-CC	B	LU0140205948	30	-800	17/10/07	22/10/07	TD 11	EB-mm
EB-DD	B	LU0061462528	32	-1000	17/10/07	22/10/07	TD 12	CBL-rr

Day 2 = 17/10/2007

Day 4 Trades = 18/10/07								
TMF Code (1)	B/S	Isin	Qty	Amount	Trade Date	Settlement Date	Trade ID	Counterparty TMF Code (2)
CBL-CC	B	LU0140205948	40	-800	18/10/07	23/10/07	TD 13	EB-mm
EB-DD	B	LU0061462528	42	-1000	18/10/07	23/10/07	TD 14	CBL-rr

Day 3 = 18/10/2007

Guaranteed trades

Example: Day 0 = 15/10/2007

CCP

Clearing Member Firm

CMF A Intraday trades 5011								
TMF Code	B/S	Isin	Qty	Amount	Trade Date	Settlement Date	Trade ID	Counterparty
EB-AA	B	LU0140205948	10	-500	15/10/07	18/10/07	TD 01	LCH.Clearnet
CBL-BB	B	LU0061462528	12	-600	15/10/07	18/10/07	TD 02	LCH.Clearnet
EB-AA	B	LU0140205948	25	-1500	15/10/07	18/10/07	TD 03	LCH.Clearnet
CBL-BB	S	LU0061462528	10	550	15/10/07	18/10/07	TD 04	LCH.Clearnet
CBL-CC	S	LU0140205948	100	6000	15/10/07	18/10/07	TD 05	LCH.Clearnet
EB-DD	S	LU0061462528	110	8000	15/10/07	18/10/07	TD 06	LCH.Clearnet
CBL-CC	S	LU0140205948	200	16000	15/10/07	18/10/07	TD 07	LCH.Clearnet
EB-DD	S	LU0061462528	300	20000	15/10/07	18/10/07	TD 08	LCH.Clearnet

CMF B Intraday trades 5011								
TMF Code	B/S	Isin	Qty	Amount	Trade Date	Settlement Date	Trade ID	Counterparty
EB-xx	S	LU0140205948	10	500	15/10/07	18/10/07	TD 01	LCH.Clearnet
EB-zz	S	LU0061462528	12	600	15/10/07	18/10/07	TD 02	LCH.Clearnet
EB-yy	S	LU0140205948	25	1500	15/10/07	18/10/07	TD 03	LCH.Clearnet
EB-mm	B	LU0061462528	10	-550	15/10/07	18/10/07	TD 04	LCH.Clearnet
CBL-rr	B	LU0140205948	100	-6000	15/10/07	18/10/07	TD 05	LCH.Clearnet
CBL-tt	B	LU0061462528	110	-8000	15/10/07	18/10/07	TD 06	LCH.Clearnet
CBL-uu	B	LU0140205948	200	-16000	15/10/07	18/10/07	TD 07	LCH.Clearnet
CBL-ll	B	LU0061462528	300	-20000	15/10/07	18/10/07	TD 08	LCH.Clearnet

CMF A PR3 file = position results (sent approx 23pm)								
Record type	TMF Code	Position Account	Isin	Qty	Amount	Trade Date	Settlement Date	Trade ID
10000	EB-AA	PA-EB-AA	LU0140205948	0	0		18/10/07	
20000	EB-AA	PA-EB-AA	LU0140205948	10	-500	15/10/07	18/10/07	TD 01
20000	EB-AA	PA-EB-AA	LU0140205948	25	-1500	15/10/07	18/10/07	TD 03
30000	EB-AA	PA-EB-AA	LU0140205948	35	-2000		18/10/07	
10000	EB-DD	PA-EB-DD	LU0061462528	0	0		18/10/07	
20000	EB-DD	PA-EB-DD	LU0061462528	-110	8000	15/10/07	18/10/07	TD 06
20000	EB-DD	PA-EB-DD	LU0061462528	-300	20000	15/10/07	18/10/07	TD 08
30000	EB-DD	PA-EB-DD	LU0061462528	-410	28000		18/10/07	
10000	CBL-BB	PA-CBL-BB	LU0061462528	0	0		18/10/07	
20000	CBL-BB	PA-CBL-BB	LU0061462528	12	-600	15/10/07	18/10/07	TD 02
20000	CBL-BB	PA-CBL-BB	LU0061462528	-10	550	15/10/07	18/10/07	TD 04
30000	CBL-BB	PA-CBL-BB	LU0061462528	2	-50	15/10/07	18/10/07	
10000	CBL-CC	PA-CBL-CC	LU0140205948	0	0		18/10/07	
20000	CBL-CC	PA-CBL-CC	LU0140205948	-100	6000	15/10/07	18/10/07	TD 05
20000	CBL-CC	PA-CBL-CC	LU0140205948	-200	16000	15/10/07	18/10/07	TD 07
30000	CBL-CC	PA-CBL-CC	LU0140205948	-300	22000		18/10/07	

Day 1 Trades = 15/10/07

TMF Code (1)	B/S	Isin	Qty	Amount	Trade Date	Settlement Date	Trade ID	Counterparty TMF Code (2)
EB-AA	B	LU0140205948	10	-500	15/10/07	18/10/07	TD 01	EB-yy
CBL-BB	B	LU0061462528	12	-600	15/10/07	18/10/07	TD 02	EB-zz
EB-AA	B	LU0140205948	25	-1500	15/10/07	18/10/07	TD 03	EB-yy
CBL-BB	S	LU0061462528	10	550	15/10/07	18/10/07	TD 04	EB-mm
CBL-CC	S	LU0140205948	100	6000	15/10/07	18/10/07	TD 05	CBL-rr
EB-DD	S	LU0061462528	110	8000	15/10/07	18/10/07	TD 06	CBL-tt
CBL-CC	S	LU0140205948	200	16000	15/10/07	18/10/07	TD 07	CBL-uu
EB-DD	S	LU0061462528	300	20000	15/10/07	18/10/07	TD 08	CBL-ll

Novation

- LCH.Clearnet becomes counterparty

Netting

- Position Account
- ISIN
- ISD

LCH.Clearnet

ICSD

Guaranteed trades

Example: Day 1 = 16/10/2007

CCP

Clearing Member Firm

CMF A Intraday trades 5011								
TMF Code	B/S	Isin	Qty	Amount	Trade Date	Settlement Date	Trade ID	Counterparty
CBL-CC	B	LU0140205948	20	800	16/10/07	19/10/07	TD 09	LCH.Clearnet
EB-DD	B	LU0061462528	22	1000	16/10/07	19/10/07	TD 10	LCH.Clearnet

CMF A PR3 file = position results (sent approx. 23pm)								
Record type	TMF Code	Position Account	Isin	Qty	Amount	Trade Date	Settlement Date	Trade ID
10000	EB-AA	PA-EB-AA	LU0140205948	35	-2000		18/10/07	
30000	EB-AA	PA-EB-AA	LU0140205948	35	-2000		18/10/07	
10000	EB-DD	PA-EB-DD	LU0061462528	-410	28000		18/10/07	
30000	EB-DD	PA-EB-DD	LU0061462528	-410	28000		18/10/07	
10000	CBL-BB	PA-CBL-BB	LU0061462528	2	-50		18/10/07	
30000	CBL-BB	PA-CBL-BB	LU0061462528	2	-50		18/10/07	
10000	CBL-CC	PA-CBL-CC	LU0140205948	-300	22000		18/10/07	
30000	CBL-CC	PA-CBL-CC	LU0140205948	-300	22000		18/10/07	
10000	EB-DD	PA-EB-DD	LU0061462528	0	0		19/10/07	
20000	EB-DD	PA-EB-DD	LU0061462528	22	-1000	16/10/07	19/10/07	TD 10
30000	EB-DD	PA-EB-DD	LU0061462528	22	-1000	16/10/07	19/10/07	TD 10
10000	CBL-CC	PA-CBL-CC	LU0140205948	0	0		19/10/07	
20000	CBL-CC	PA-CBL-CC	LU0140205948	20	-800	16/10/07	19/10/07	TD 09
30000	CBL-CC	PA-CBL-CC	LU0140205948	20	-800	16/10/07	19/10/07	TD 09

Day 2 Trades = 16/10/07								
TMF Code (1)	B/S	Isin	Qty	Amount	Trade Date	Settlement Date	Trade ID	Counterparty TMF Code (2)
CBL-CC	B	LU0140205948	20	-800	16/10/07	19/10/07	TD 09	EB-mm
EB-DD	B	LU0061462528	22	-1000	16/10/07	19/10/07	TD 10	CBL-rr

Novation

Netting

- 10000 : Previous position by Position Account / ISIN / ISD
- 20000 : Day's movements, having for origin :
 - Trades,
 - Corporate events application or,
 - give-up acceptance (take-up).
- 30000 : Net Position (10000 + 20000) by Position Account / ISIN / ISD

LCH.Clearnet

ICSD

Guaranteed trades

CCP

Example: Day 2 = 17/10/2007 = Settlement Date - 1

CMF A Intraday trades 5011								
TMF Code	B/S	Isin	Qty	Amount	Trade Date	Settlement Date	Trade ID	Counterparty
CBL-CC	B	LU0140205948	30	800	17/10/07	22/10/07	TD 11	LCH.Clearnet
EB-DD	B	LU0061462528	32	1000	17/10/07	22/10/07	TD 12	LCH.Clearnet

CMF A PR3 file = position results (sent approx. 23pm)								
Record type	TMF Code	Position Account	Isin	Qty	Amount	Trade Date	Settlement Date	Trade ID
10000	EB-AA	PA-EB-AA	LU0140205948	35	-2000		18/10/07	
30000	EB-AA	PA-EB-AA	LU0140205948	35	-2000		18/10/07	
10000	EB-DD	PA-EB-DD	LU0061462528	-410	28000		18/10/07	
30000	EB-DD	PA-EB-DD	LU0061462528	-410	28000		18/10/07	
10000	CBL-BB	PA-CBL-BB	LU0061462528	2	-50		18/10/07	
30000	CBL-BB	PA-CBL-BB	LU0061462528	2	-50		18/10/07	
10000	CBL-CC	PA-CBL-CC	LU0140205948	-300	22000		18/10/07	
30000	CBL-CC	PA-CBL-CC	LU0140205948	-300	22000		18/10/07	
10000	EB-DD	PA-EB-DD	LU0061462528	22	-1000		19/10/07	
30000	EB-DD	PA-EB-DD	LU0061462528	22	-1000		19/10/07	
10000	CBL-CC	PA-CBL-CC	LU0140205948	20	-800		19/10/07	
30000	CBL-CC	PA-CBL-CC	LU0140205948	20	-800		19/10/07	
10000	EB-DD	PA-EB-DD	LU0061462528	0	0	17/10/07	22/10/07	
20000	EB-DD	PA-EB-DD	LU0061462528	32	-1000	17/10/07	22/10/07	TD 12
30000	EB-DD	PA-EB-DD	LU0061462528	32	-1000	17/10/07	22/10/07	
10000	CBL-CC	PA-CBL-CC	LU0140205948	0	0	17/10/07	22/10/07	
20000	CBL-CC	PA-CBL-CC	LU0140205948	30	-800	17/10/07	22/10/07	TD 11
30000	CBL-CC	PA-CBL-CC	LU0140205948	30	-800	17/10/07	22/10/07	

CMF A SIF file with ISD = 18/10/2007 (sent approx. 18pm)								
Record type	CLEARNET REF	MEMBER DA ID	ISD	ISIN CODE	QTY	CASH	CSD REF	COMMENTS *
10		DA-EB-AA	20070718	LU0140205948	35	-2 000,00		Settlement Ok
60	2007-07-17000001	DA-EB-AA	20070718	LU0140205948	-35	-2 000		
10		DA-EB-DD	20070718	LU0061462528	-410	28 000,00		Fails
60	2007-07-17000002	DA-EB-DD	20070718	LU0061462528	-410	28 000		
10		DA-CBL-BB	20070718	LU0061462528	2	-50,00		Settlement Ok
60	2007-07-17000003	DA-CBL-BB	20070718	LU0061462528	2	-50		
10		DA-CBL-CC	20070718	LU0140205948	-300	22 000,00		Fails
60	2007-07-17000004	DA-CBL-CC	20070718	LU0140205948	-300	22 000		

* Contents of comments is for the example,s purpose

Clearing Member Firm

Day 3 Trades = 17/10/07								
TMF Code (1)	B/S	Isin	Qty	Amount	Trade Date	Settlement Date	Trade ID	Counterparty TMF Code (2)
CBL-CC	B	LU0140205948	30	-800	17/10/07	22/10/07	TD 11	EB-mm
EB-DD	B	LU0061462528	32	-1000	17/10/07	22/10/07	TD 12	CBL-r

Novation

Netting

Settlement preparation

- Settlement Information File to CMF
Delivery Account / ISIN / ISD

- SWIFT to ICSD
One swift for each counterparty
Contains LCH.Clearnet ref.

LCH.Clearnet

ICSD

Outgoing Swift Messages with ISD = 18/10/2007 (sent approx. 20pm) corresponding to CMF A									
RECORD TYPE	CLEARNET REF	MEMBER DA ID	Counterparty	ISD	ISIN CODE	QTY	CASH	CSD recipient	COMMENTS
MT541	2007-07-17000001	DA-EB-AA	LCH.Clearnet	20070718	LU0140205948	35	-2 000	EuroClear-Bank	Settlement Ok
MT543	2007-07-17000002	DA-EB-DD	LCH.Clearnet	20070718	LU0061462528	-410	28 000	EuroClear-Bank	Fails
MT541	2007-07-17000003	DA-CBL-BB	LCH.Clearnet	20070718	LU0061462528	2	-50	Clearstream	Settlement Ok
MT543	2007-07-17000004	DA-CBL-CC	LCH.Clearnet	20070718	LU0140205948	-300	22 000	Clearstream	Fails
MT543	2007-07-17000001	LCH.Clearnet	DA-EB-AA	20070718	LU0140205948	-35	2 000	EuroClear-Bank	Settlement Ok
MT541	2007-07-17000002	LCH.Clearnet	DA-EB-DD	20070718	LU0061462528	410	-28 000	EuroClear-Bank	Fails
MT543	2007-07-17000003	LCH.Clearnet	DA-CBL-BB	20070718	LU0061462528	-2	50	EuroClear-Bank	Settlement Ok
MT541	2007-07-17000004	LCH.Clearnet	DA-CBL-CC	20070718	LU0140205948	300	-22 000	EuroClear-Bank	Fails

Concrete examples

- **Guaranteed settlement**

- **Internal**

- **Settled**

- AA buying 35 LU0140205948 for €2,000 from LCH.CN

- **Failed**

- DD delivering 410 LU0061462528 for €28,000 to LCH.CN

- » Cancelled

- **Bridge**

- **Settled**

- LCH.CN delivering 2 LU0061462528 for €50 to BB in CBL

- **Failed**

- LCH.CN buying 300 LU0140205948 for €22,000 from CC in CBL

- » Cancelled

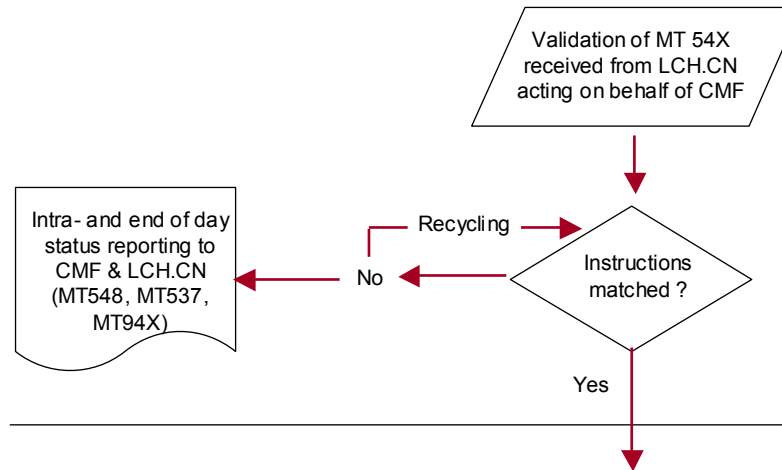
Guaranteed settlement (1)

➡ Settled : AA in EB buying 35 LU0140205948 for €2,000 from LCH.CN in EB

T+0 – T+1

LCH.CN
35 LU

AA
€2,000

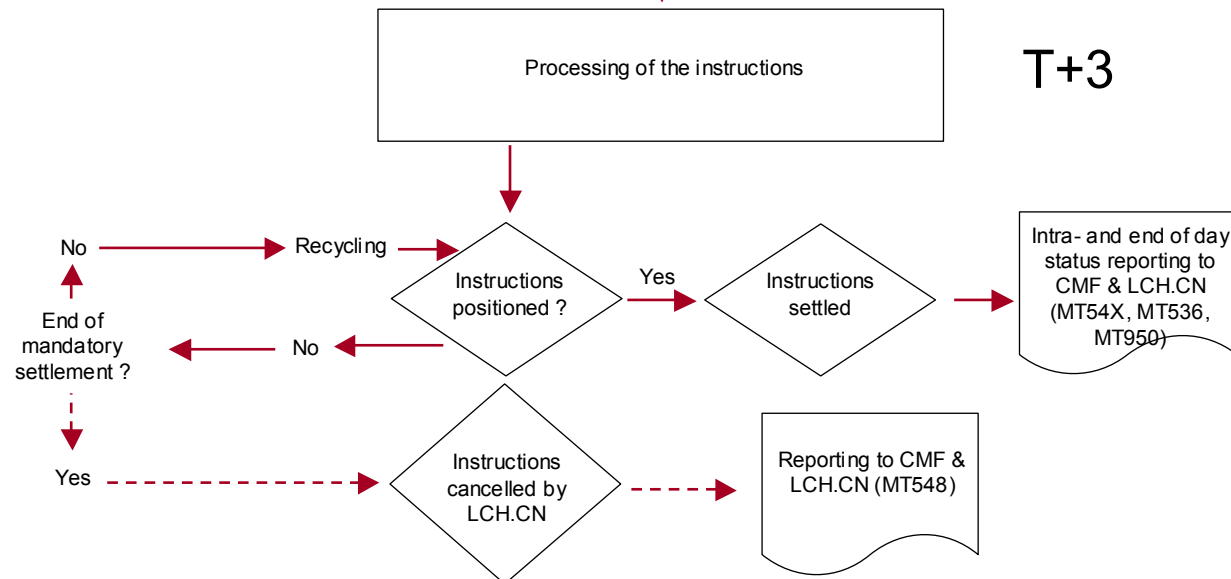


T+2

20.30

LCH.CN
35 LU
-35LU
+€2,000
=€2,000

AA
€2,000
-€2,000
+35 LU
=35 LU



T+3

Guaranteed settlement (2)

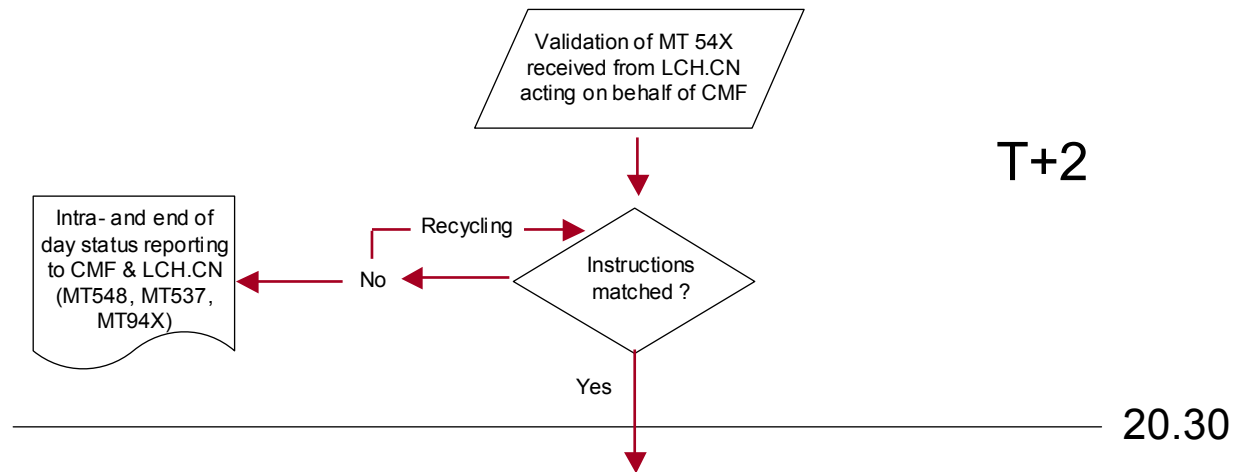
➡ **Failed** : DD in EB delivering **410** LU0061462528 for €28,000 to LCH.CN in EB

T+0 – T+1

LCH.CN
€28,000

DD
400 LU

T+2

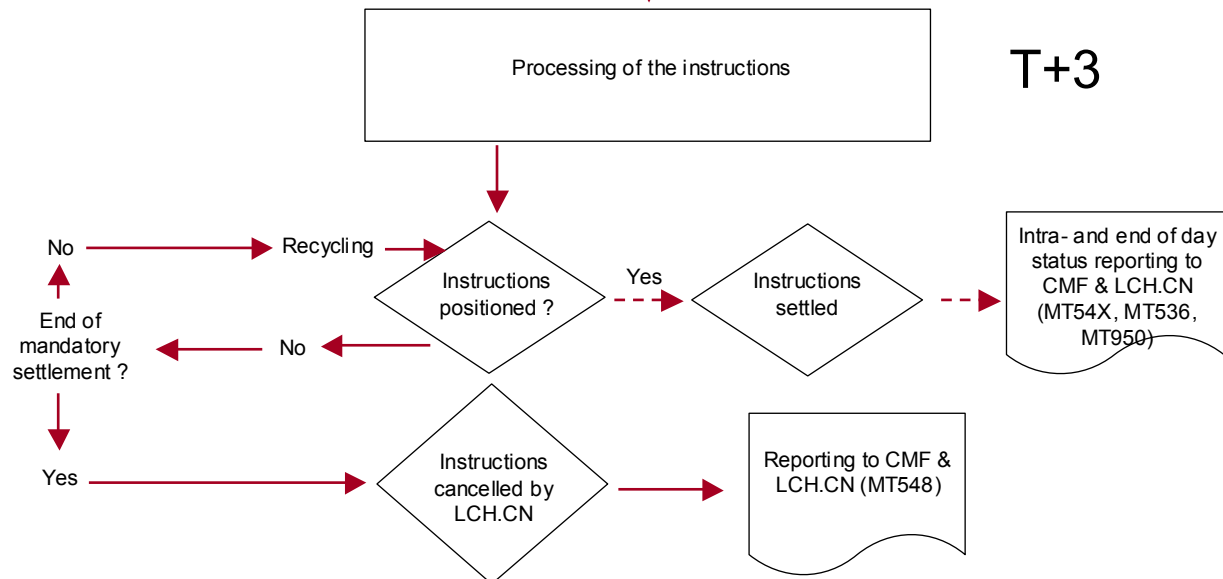


20.30

LCH.CN
€28,000

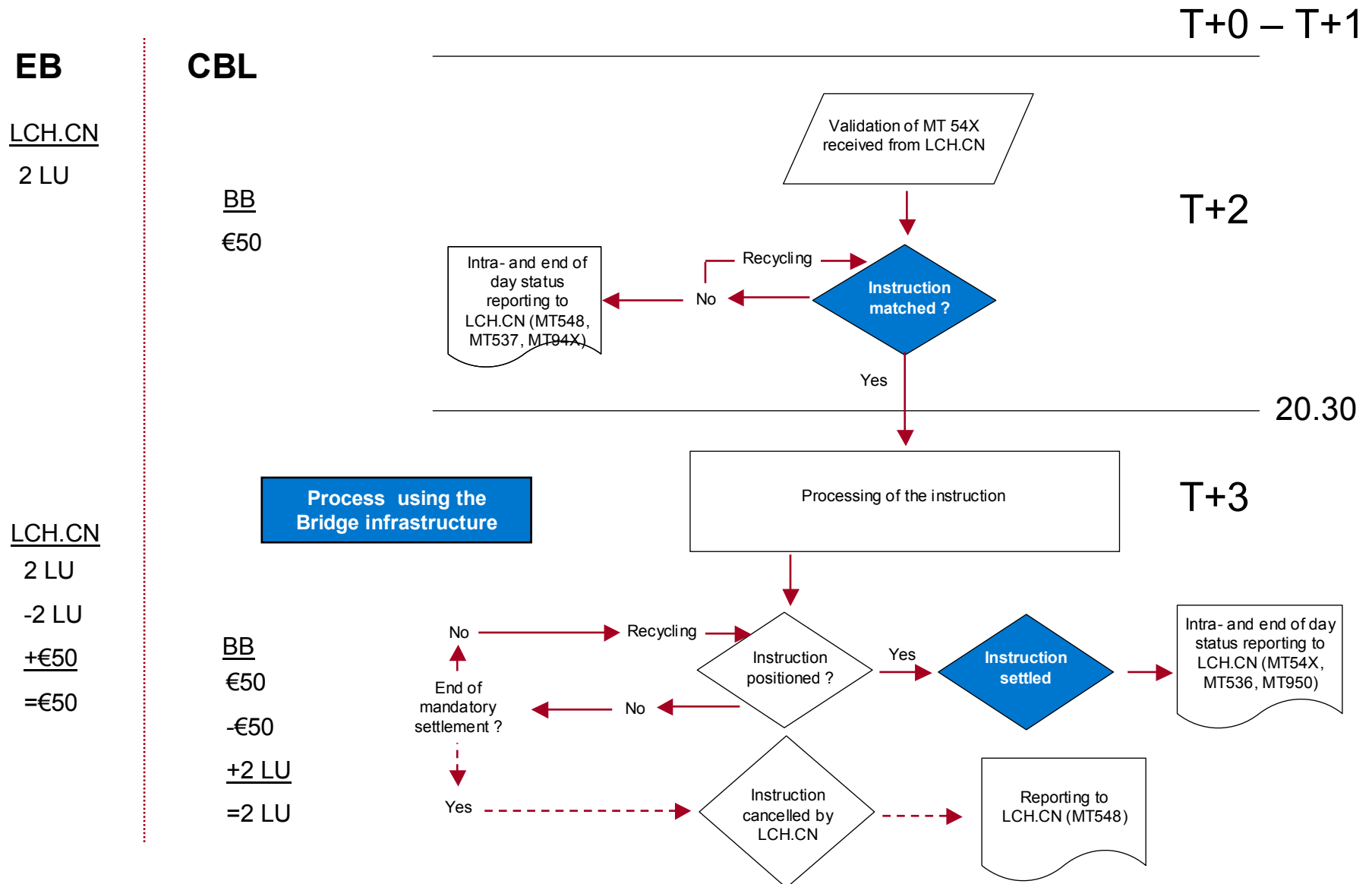
DD
400 LU

T+3



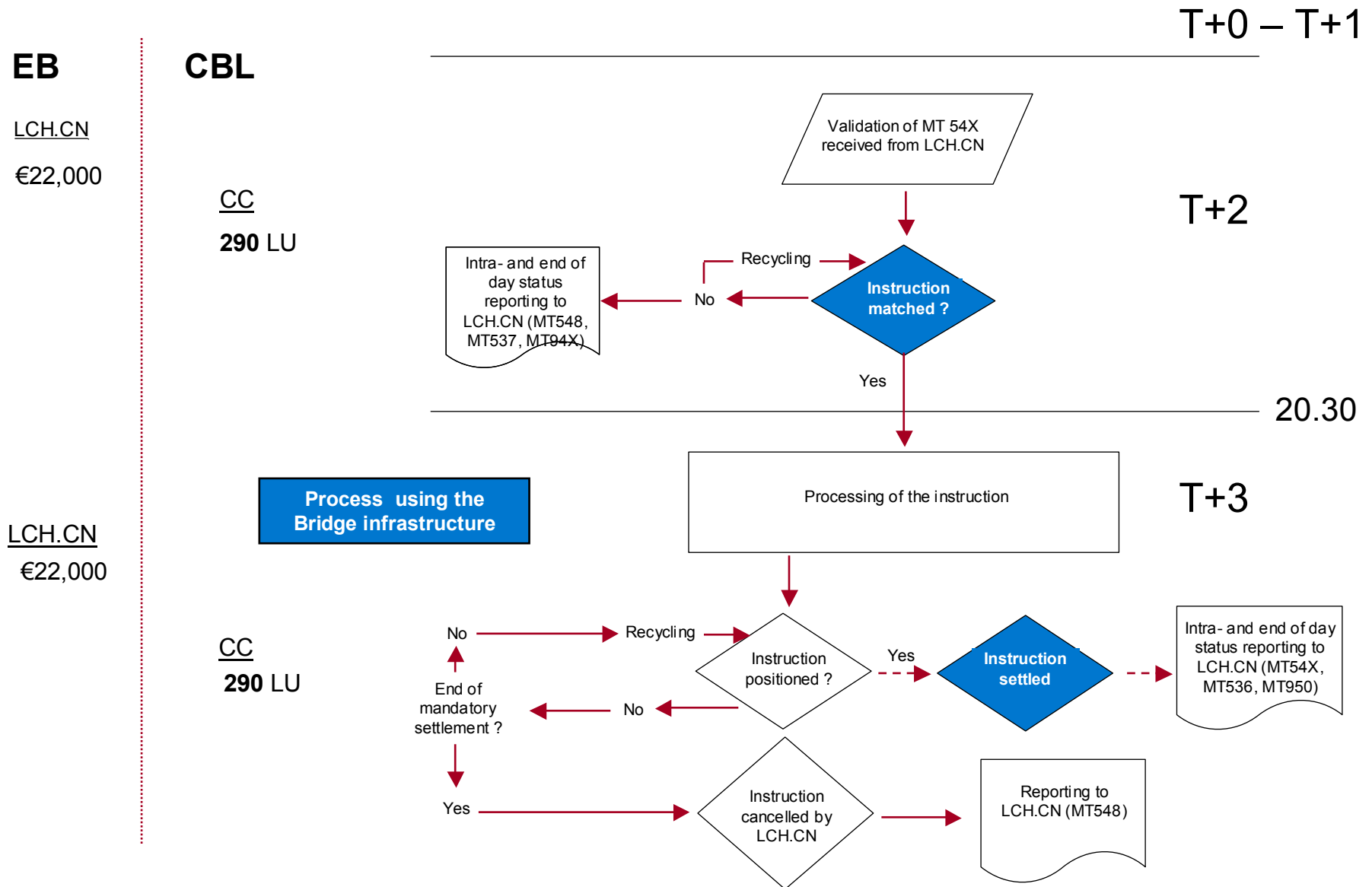
Guaranteed settlement (3)

➔ Settled : BB in CBL buying 2 LU0061462528 for €50 from LCH.CN in EB



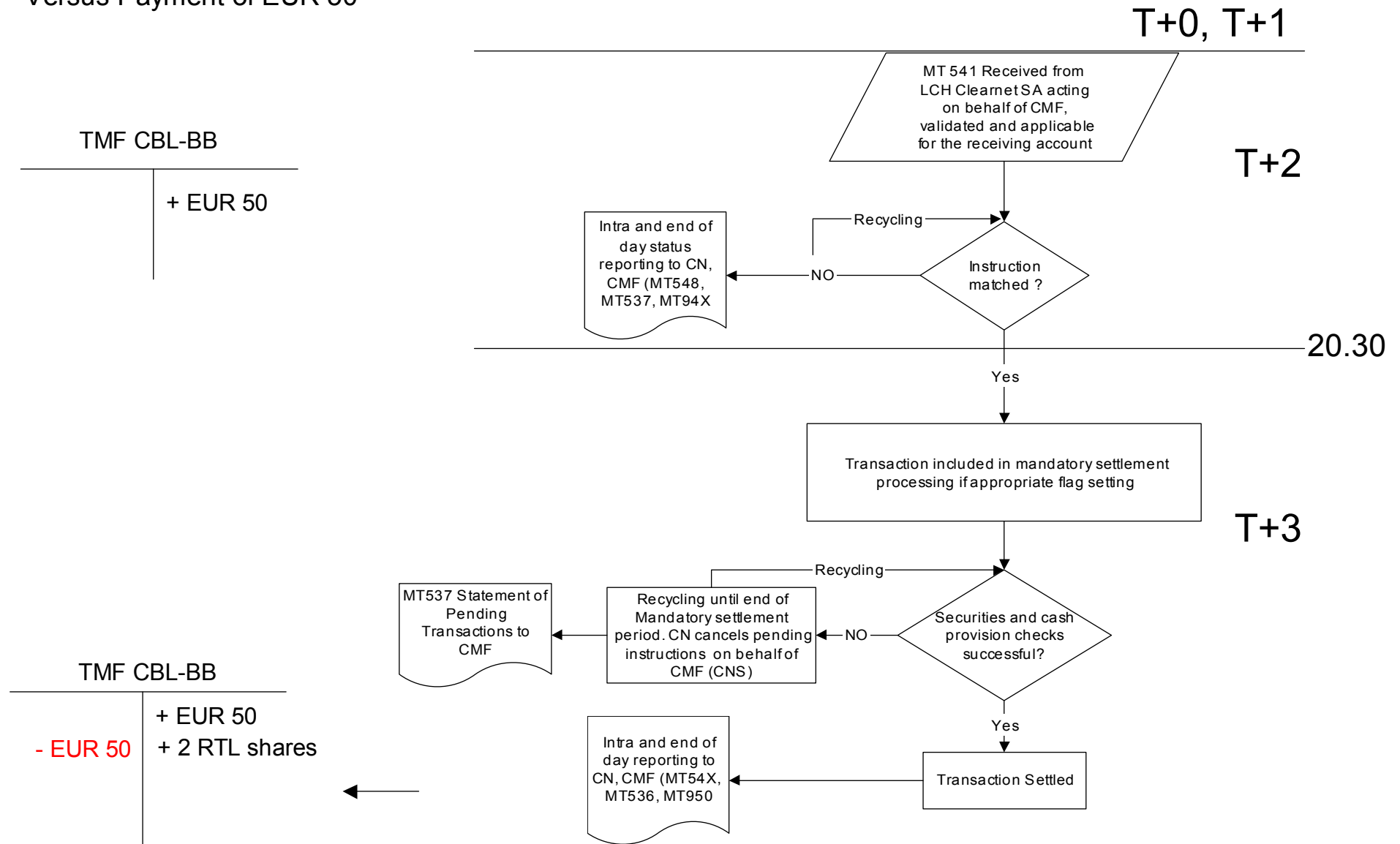
Guaranteed settlement (4)

➔ Failed : CC in CBL delivering **300** LU0140205948 for €22,000 to LCH.CN



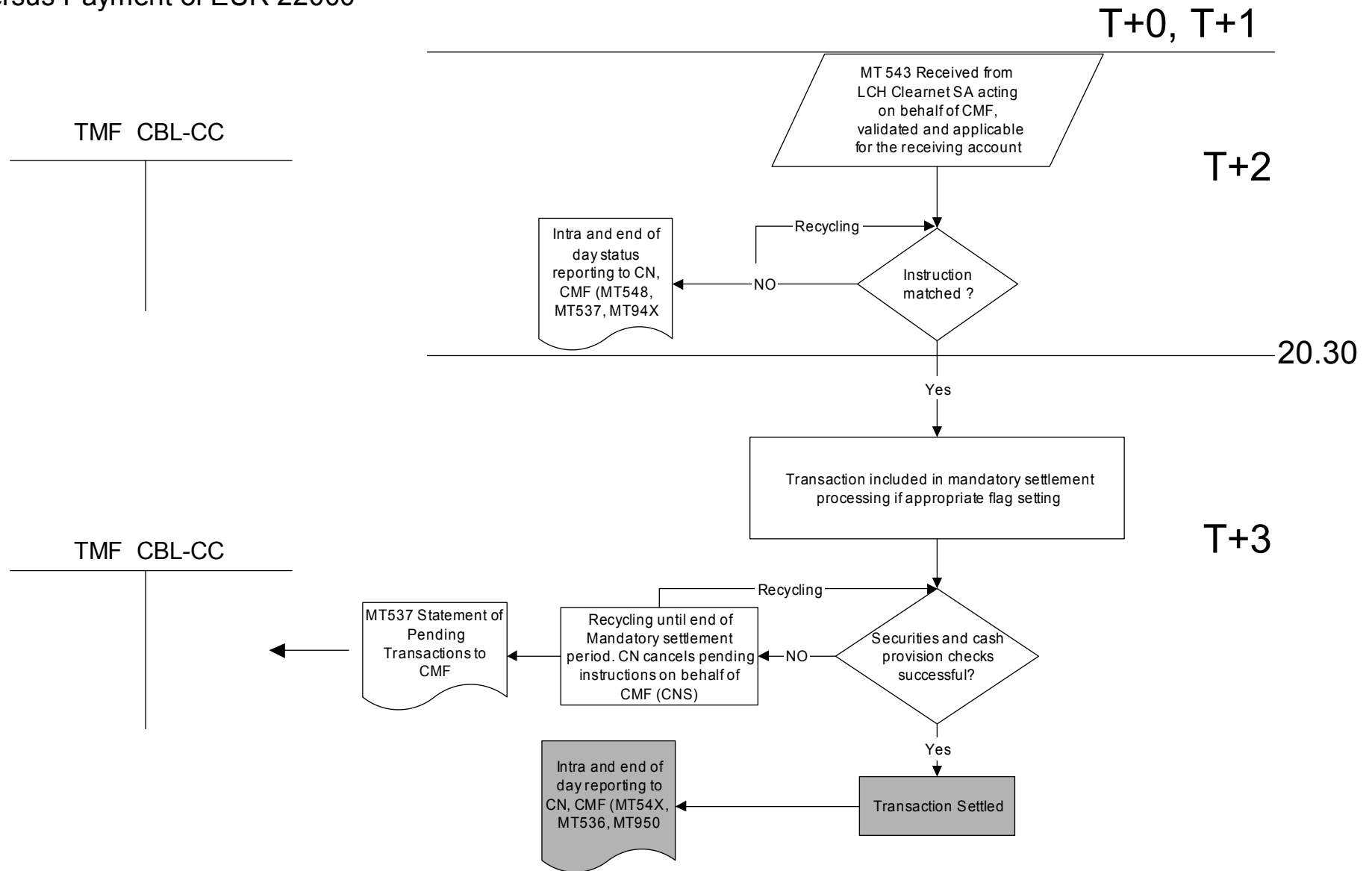
Guaranteed process – Clearstream view

Life Cycle of a successful Bridge Receipt of 2 RTL shares (LU0061462528)
Versus Payment of EUR 50



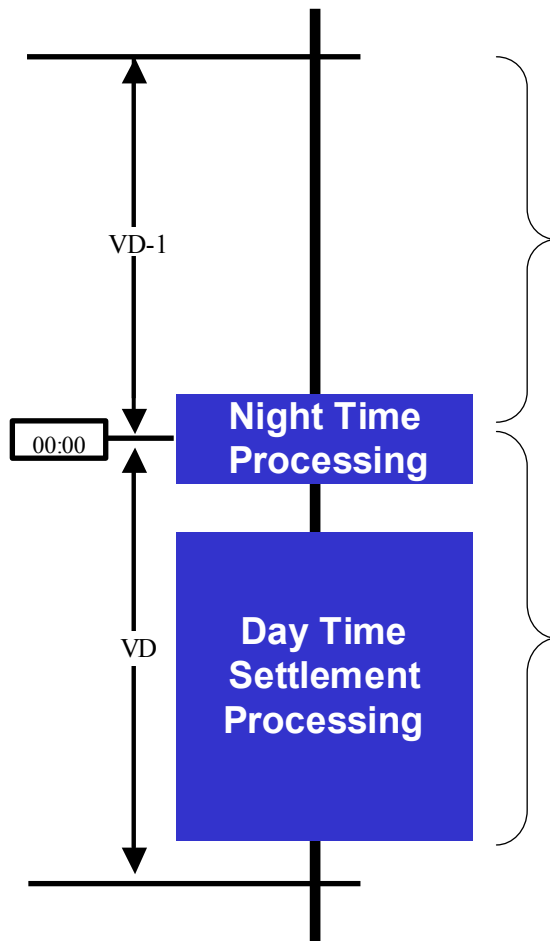
Guaranteed process – Clearstream view

Life Cycle of a short Bridge Delivery of 300 Mittal shares (LU0140205948)
Versus Payment of EUR 22000



Cash management

- Money transfer instructions <> Securities settlement instructions
 - Different input deadlines
 - Payments to counter-parties in CBL independent of Bridge infrastructure
- Guaranteed settlement eligible currencies



– AUD, HKD, JPY, NZD

- Deadline in S-1

⇒ cash management anticipation required

– CAD, CHF, DKK, EUR, GBP, HUF, NOK, PLN, SEK, TRY, USD, ZAR

- Deadline in S

⇒ same-day cash management possible

Guaranteed trades

CCP

Example: Day 3 = 18/10/2007 = Settlement Date

CMF A Intraday trades 5011								
TMF Code	B/S	Isin	Qty	Amount	Trade Date	Settlement Date	Trade ID	Counterparty
CBL-CC	B	LU0140205948	40	800,00	17/10/07	22/10/07	TD 13	LCH.Clearnet
EB-DD	B	LU0061462528	42	1000,00	17/10/07	22/10/07	TD 14	LCH.Clearnet

CMF A PR3 file = position results (sent approx. 23pm)								
Record type	TMF Code	Position Account	Isin	Qty	Amount	Trade Date	Settlement Date	Trade ID
10000	EB-DD	PA-EB-DD	LU0061462528	22	-1000,00		19/10/07	
30000	EB-DD	PA-EB-DD	LU0061462528	22	-1000,00		19/10/07	
10000	CBL-CC	PA-CBL-CC	LU0140205948	20	-800,00		19/10/07	
30000	CBL-CC	PA-CBL-CC	LU0140205948	20	-800,00		19/10/07	
10000	EB-DD	PA-EB-DD	LU0061462528	32	-1000,00		22/10/07	
30000	EB-DD	PA-EB-DD	LU0061462528	32	-1000,00		22/10/07	
10000	CBL-CC	PA-CBL-CC	LU0140205948	30	-800,00		22/10/07	
30000	CBL-CC	PA-CBL-CC	LU0140205948	30	-800,00		22/10/07	
10000	EB-DD	PA-EB-DD	LU0061462528	0	0,00			
20000	EB-DD	PA-EB-DD	LU0061462528	42	-1000,00	18/10/07	23/10/07	TD 14
30000	EB-DD	PA-EB-DD	LU0061462528	42	-1000,00	18/10/07	23/10/07	
10000	CBL-CC	PA-CBL-CC	LU0140205948	0	0,00			
20000	CBL-CC	PA-CBL-CC	LU0140205948	40	-800,00	18/10/07	23/10/07	TD 13
30000	CBL-CC	PA-CBL-CC	LU0140205948	40	-800,00	18/10/07	23/10/07	

CMF A SIF file with ISD = 19/10/2007 (sent approx. 18pm)								
RECORD TYPE	CLEARNET REF	MEMBER DA ID	ISD	ISIN CODE	QTY	CASH	CSD REF	COMMENTS *
20	2007-07-17000002	DA-EB-DD	20070718	LU0061462528	-410	28000,00	2007-07-17000002	FAILS D-1
30		DA-EB-DD	20070718	LU0061462528	-410	28000,00		
10		DA-EB-DD	20071019	LU0061462528	22	-1000,00		Settlement
60	2007-07-18000005	DA-EB-DD	20071019	LU0061462528	-388	27000,00		
20	2007-07-17000004	DA-CBL-CC	20070718	LU0140205948	-300	22000,00	2007-07-17000004	FAILS D-1
30		DA-CBL-CC	20070718	LU0140205948	-300	22000,00		
10		DA-CBL-CC	20071019	LU0140205948	20	-800,00		Settlement
60	2007-07-18000006	DA-CBL-CC	20071019	LU0140205948	-280	21200,00		

* Contents of comments is for the example's purpose

Clearing Member Firm

Day 4 Trades = 18/10/07								
TMF Code (1)	B/S	Isin	Qty	Amount	Trade Date	Settlement Date	Trade ID	Counterparty
CBL-CC	B	LU0140205948	40	-800,00	18/10/07	23/10/07	TD 13	EB-nm
EB-DD	B	LU0061462528	42	-1000,00	18/10/07	23/10/07	TD 14	CBL-rr

Novation & Netting

- Fails are determined by difference with sent to settlement D-1, received confirmation of settlement.

Continuous Netting Settlement (CNS)

- Fails are reinjected in SIF for settlement the next day (record type 20).
- Record 30 = 20 + 25 COE (no COE in this example)
- Record 60 = 30 + 10, giving the new instruction sent for settlement the next day with **New LCH.Clearnet Ref.**

LCH.Clearnet

ICSD

Incoming Swift Messages = 18/10/2007 (can be received until approx. 15pm)									
RECORD TYPE	CLEARNET REF	MEMBER DA ID	MEMBER DA ID	ISD	ISIN CODE	QTY	CASH	CSD receipt	COMMENTS
MT547	2007-07-17000001	LCH.Clearnet	DA-EB-AA	20070718	NL0000119593	-35	2000,00		Settlement Ok
MT547	2007-07-17000003	LCH.Clearnet	DA-CBL-BB	20070718	LU0061462528	-2	50,00		Settlement Ok

Outgoing Swift Messages, to cancel not settled postings (sent approx. 15 pm - 16 pm) corresponding to CMF A									
RECORD TYPE	CLEARNET REF	MEMBER DA ID	Counterparty	ISD	ISIN CODE	QTY	CASH	CSD receipt	COMMENTS
MT543 (cancellation)	2007-07-17000002	DA-EB-DD	LCH.Clearnet	20070718	LU0061462528	-410	28 000	EuroClear-Bank	For Cancellation
MT543 (cancellation)	2007-07-17000004	DA-CBL-CC	LCH.Clearnet	20070718	LU0140205948	-300	22 000	Clearstream	For Cancellation
MT541 (cancellation)	2007-07-17000002	LCH.Clearnet	DA-EB-DD	20070718	LU0061462528	410	-28 000	EuroClear-Bank	For Cancellation
MT541 (cancellation)	2007-07-17000004	LCH.Clearnet	DA-CBL-CC	20070718	LU0140205948	300	-22 000	EuroClear-Bank	For Cancellation

Outgoing Swift Messages with ISD = 19/10/2007 (sent approx. 20pm) corresponding to CMF A									
RECORD TYPE	CLEARNET REF	MEMBER DA ID	Counterparty	ISD	ISIN CODE	QTY	CASH	CSD receipt	COMMENTS
MT543	2007-07-18000005	DA-EB-DD	LCH.Clearnet	20070719	LU0061462528	-388	27,00	EuroClear-Bank	FAILS
MT543	2007-07-18000006	DA-CBL-CC	LCH.Clearnet	20070719	LU0140205948	-280	27000,00	Clearstream	FAILS
MT541	2007-07-18000005	LCH.Clearnet	DA-EB-DD	20070719	LU0061462528	388	-27000,00	EuroClear-Bank	FAILS
MT541	2007-07-18000006	LCH.Clearnet	DA-CBL-CC	20070719	LU0140205948	280	-21200,00	EuroClear-Bank	FAILS

The aim of the buy-in is:

- To allow the CCP to perform its commitments vis-à-vis the buyers
 - Through delivery of the securities
 - Or through a cash indemnity
- To limit the “age” of the fails



LCH.Clearnet has defined the buy in time line as such:

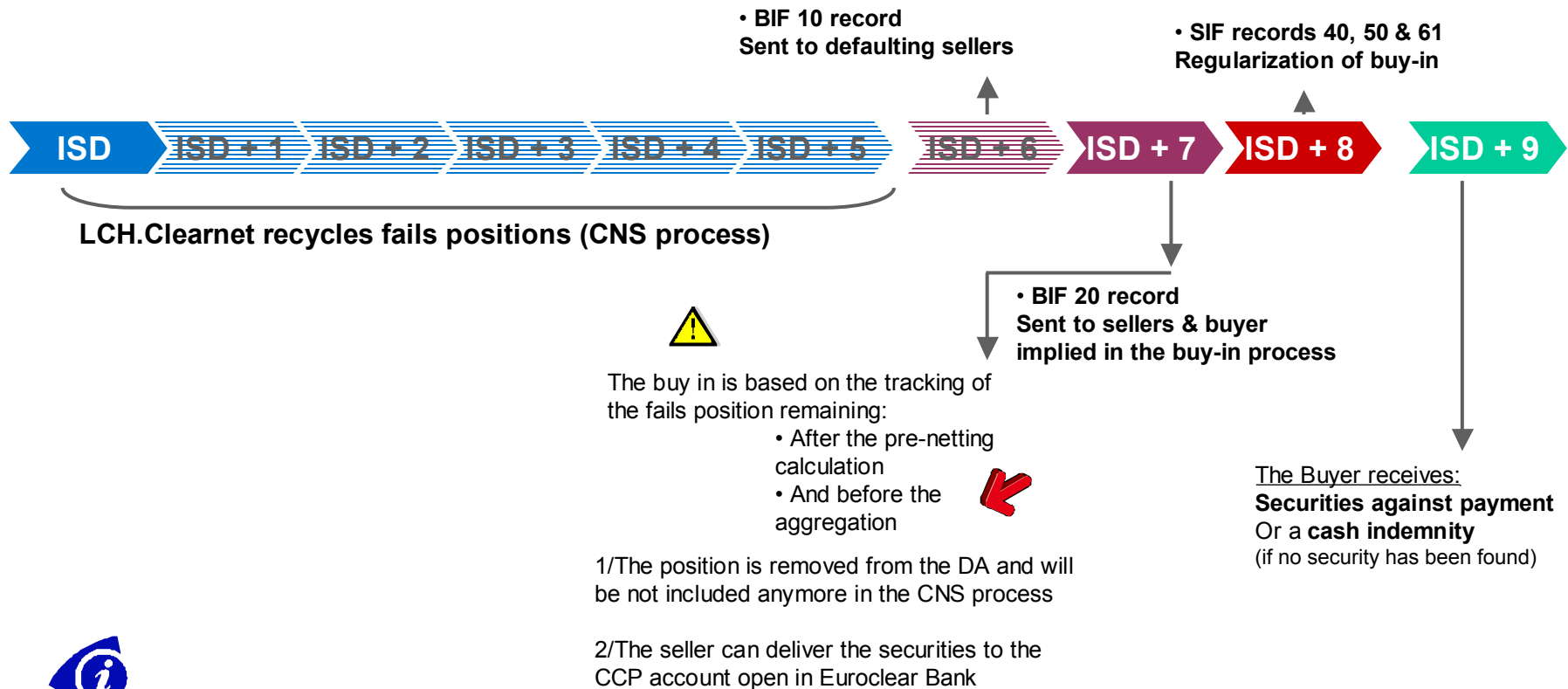
- Settlement Date + 8

LCH.Clearnet will initiate the buy in process for any positions that remains unsettled in:

- Settlement Date + 7 (at the end of business day)

Buy-in life cycle

CCP



BIF file

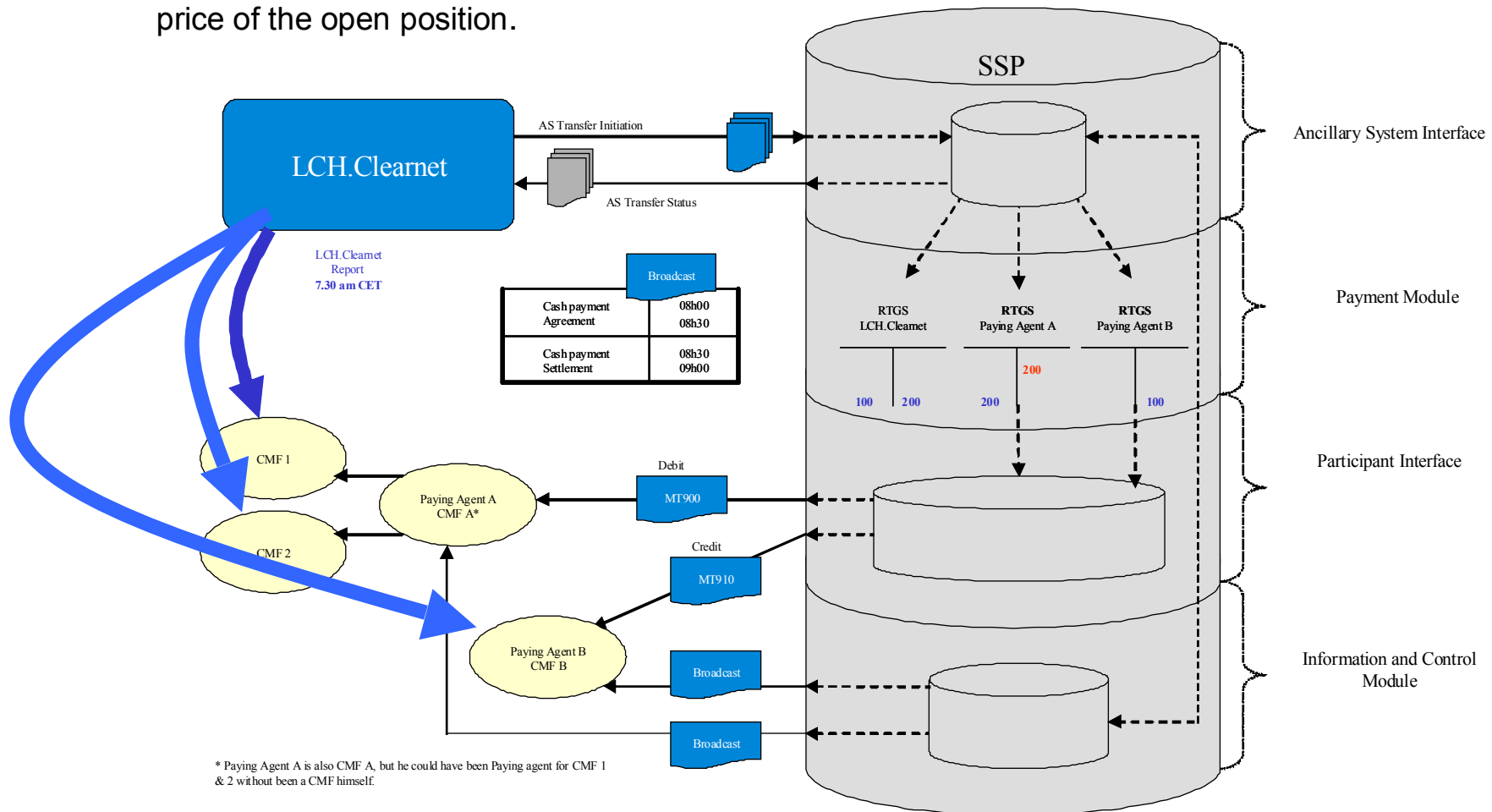
Record 10 ⇒ alert to the seller that the position is subject to Buy-in
 Record 20 ⇒ notification to inform that the buy in will be triggered

SIF file

Record 40 ⇒ position created by the CCP
 Record 50 ⇒ fails position cancelled by the CCP
 Record 61 ⇒ final instruction linked to the buy-in regularization

Margin calls

- The margin required on the cash market by the CCP to its Clearing member is supposed to cover the losses that could occur following the liquidation of position of a defaulting member.
- The aim of the margins is to cover two notions:
 - Liquidation risk: to cover the variation of the open position value in case of unfavorable market evolution
 - Negotiation risk: to cover the negotiation risk resulting from the daily revaluation to the settlement price of the open position.



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