



LCH.CLEARNET

LCH.Clearnet Group

SwapClear

CESAME2 meeting October 20 2008

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Background

Market Segmentation: Products; Users; Trade Sources

Historic and Current Clearing Volumes

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History of the Interest Rate Swap market

- ▶ Interest Rate Swaps had been traded between banks since 1980
- ▶ The swaps market took a major step forward in terms of standardisation by the introduction of ISDA documentation in the mid-80s

Market demand

- ▶ Market practitioners were keen to ensure that, when cleared, the essence of the IRS market remained OTC-based and that clearing by LCH should enhance the market's efficiency and integrity but not turn IRSs into an exchange-lookalike product

Service launched in September 1999

- ▶ Most major IRS dealers participate
- ▶ Significant credit risk efficiencies derived from netting of exposures and full collateralisation supported by LCH.Clearnet Ltd's post-default backing
- ▶ Operational benefits from centralisation of positions and clearing processes

Increased demand expected in response to recent market turmoil

- ▶ Successful management of Lehman USD9 trillion position through full involvement of membership in default management process

Market Segmentation: Products; Users; Trade Sources

The SwapClear service

Products

- Vanilla and near vanilla swaps
- Currencies: USD, JPY, Euro, GBP up to 30 years remaining tenor
- In: LIBOR, EURIBOR
- CHF, AUD, DKK, CAD, SEK, HKD, NOK, NZD, PLN and ZAR up to 10 years
- Any date cycles
- Compounding (i.e. monthly floating coupons compounded and paid to net with a semi-annual fixed coupon)
- LCH.Clearnet continues to work with the banks on product development within the rates segment.

Users

20 Banking groups have SwapClear clearing memberships.

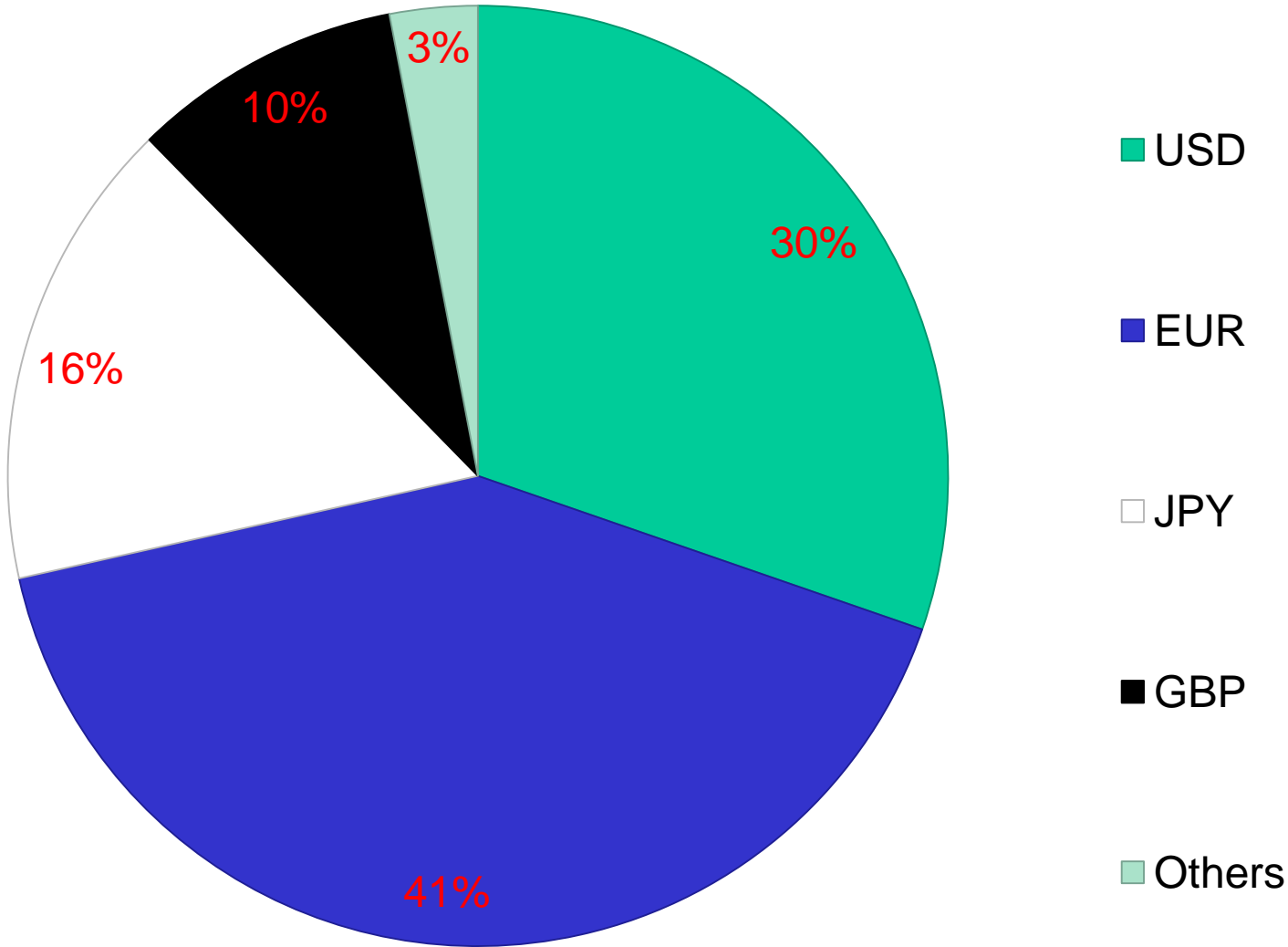
The long term nature of the SwapClear portfolio requires surviving members able to play an effective role in the default management process and therefore the membership criteria are very stringent:

USD 5bn core capital, 'A' rating or better, USD 1tr minimum portfolio size to demonstrate operational capacity.

Trade sources

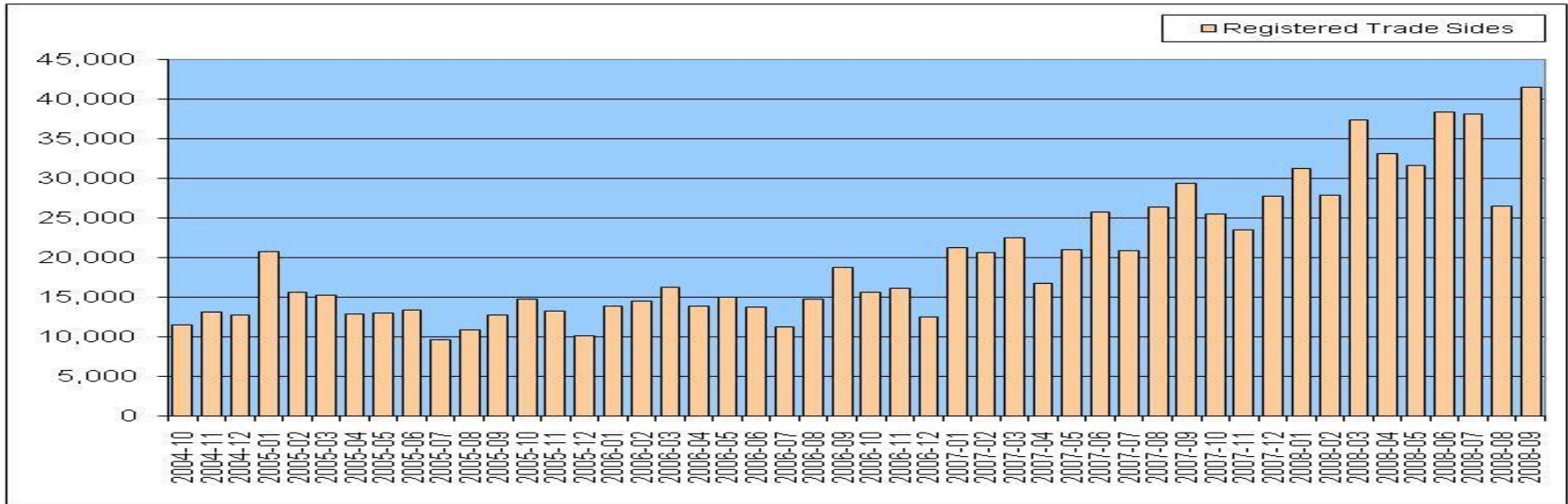
The vast majority of new trades reach LCH.Clearnet through MarkitWire (formerly SwapsWire) affirmations. These may be generated by one bank and signed off by the other in a direct deal or may be generated by a broker and signed off by each bank.

SwapClear Currency split (notionals): September 2008



Historic and Current Clearing Volumes

SwapClear Growth



- ▶ Following Steady during the period 2004 to 2006, SwapClear growth has subsequently accelerated strongly
- ▶ The six highest volume months have all been in 2008
- ▶ September 2008 saw the number of trades registered in a month pass 20,000 (40,000 sides) for the first time
- ▶ The recent market turmoil has been an important driver for growth, due to the benefits of counterparty risk mitigation and improved balance sheet effectiveness
- ▶ 98% of new trades are submitted from MarkitWire - the industry's affirmation platform of choice. Other trades are matched in SWIFT Accord system.
- ▶ A regulatory-driven back-loading programme to replace paper confirmations has also swollen trade volumes.

Outstanding IRS trade side notionals (USD Bn)

