

To: LCH.Clearnet SA
Mr Christophe Hémon
Cc: Mr Maurice Buijsman

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Amsterdam, 19 August 2013

Dear Mr Hémon,

Re: Trade Date Netting as preferred netting model in settlement

In recent years, ample discussions have been held on the pros and cons of TDN and CNS as netting model. Initiatives for a migration from CNS to TDN on LCH.Clearnet SA platforms were on the table with users from time to time, but have been withdrawn.

Within DACSI, we have analysed the pros and cons of both netting models again recently. This did not result in a univocal preference for one of the models for the (very) near future, in particular because banks tend to trade off differently the advantages (e.g. TDN replicates the OTC-process) and disadvantages (e.g. TDN results in more settlement instructions). However, we consider that under T2S and/or with interoperable CCPs the use of *one* model would be more than welcome. If one is to be chosen, then TDN would be preferred.

Once T2S is implemented and/or when CCPs become interoperable, custodians will have to deal with the settlement netting models of multiple CCPs. Transaction management (CAs on pending transactions) performed by CCPs (where a CCP uses CNS) *and* by CSDs (where a CCP uses TDN) for the same security (ISIN) would result in a complex and hence inefficient process. Custodians – and investors – would benefit when all CCPs use the same model.

When choosing between the two models, TDN provides advantages for both providers and users. TDN would enable the market infrastructure providers to concentrate on transaction management provided by the CSDs. For custodians, this would imply one process / information flow on pending transactions (from CSD only) instead of two (from CCP and CSD). Furthermore, the CCP who migrates to TDN before T2S implementation, would avoid the (re)development of programs and procedures for transaction management in connection to T2S, thus simplifying its migration to T2S.

We would ask you to consider migrating towards Trade Date Netting before the T2S implementation in order to avoid unnecessary complexities as described above. Should you wish to discuss this issue, we remain at your disposal.

Kind regards,

The Association for Financial Markets in Europe (AFME)

Dutch Advisory Committee Securities Industry (DACSI)

Jeff King, chair Clearing Committee

Henk Brink, chairman
Ben van der Velpen, chair Working Group Settlement,
Clearing & Asset Servicing (SCAS)

* The Dutch Advisory Committee Securities Industry is the principal, not for profit association in The Netherlands for firms active in the securities industry. The Association represents the interests of its members on all aspects of their securities and securities related business - both domestic and international - and positions the Dutch view to the market infrastructures service providers and regulatory authorities in The Netherlands and the European Union.