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London Stock Exchange
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Delivered via email to:
nettingconsultation@londonstockexchange.com

Dear Sirs,

Response to the Settlement Netting Service Consultation

European Central Counterparty Limited (EuroCCP) welcomes the London Stock Exchange (LSE)'s invitation to interested parties to comment on its settlement netting service as described in the consultation document of 29 January 2008.

EuroCCP is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (DTCC). It is incorporated in the United Kingdom and is awaiting recognition by the Financial Services Authority as a Recognised Clearing House. EuroCCP's interest in commenting on this proposal arises from the possibility of offering our services to LSE Member Firms in the future. EuroCCP plans to sign the Code of Conduct and clear for multiple trading venues in Europe, including the LSE.

EuroCCP supports initiatives in post-trade services that increase efficiency and reduce costs and risks. As a new entrant to the provision of post-trade services in Europe, we particularly welcome the intention of MiFID and the Code of Conduct to create conditions for fair competition among providers that will give users a choice of where they trade, clear and settle. Market participants should be free to trade on as many trading venues as they desire and use a central counterparty (CCP) of their choice across all trading venues, thereby minimising margin requirements and settlement costs.

We assess the settlement netting service proposed by the LSE against some principles which we believe will provide meaningful choice to users without introducing unnecessary risks. These principles are:

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1. Transactions should be transmitted on a gross basis, as soon as the trades are concluded, by exchanges to CCPs that guarantee the trades. A CCP needs to control its risk exposures real time across all trading venues it clears for in order to manage the associated risks.
 - a. The transmission should be under equitable conditions for all CCPs, particularly where one of the CCPs is owned by or affiliated with the exchange.
 - b. The transmission of transaction data should either not be charged to CCPs by the exchange or offered at a market price determined via competitive bids from competent vendors.
2. An exchange should not require netting to be performed by an entity other than the CCP guaranteeing the trades. Each CCP should be able to conduct its own netting across all trading venues it services and agree reconciliation routines with CCPs with whom it interoperates.

A CCP needs to control its settlement obligations. Where it clears for multiple trading venues, it needs to determine and control which accounts and securities go into its net and gross settlement obligations across all venues. Netting by a third party increases cost and complexity for CCPs who already have this capability, and represents an unnecessary duplication for CCPs that clear the same securities traded at venues other than the LSE. Indeed, since the LSE proposes to charge for this function, it only adds to the total market cost.

Our assessment of the LSE settlement netting service proposal leads us to the conclusion that the proposal primarily serves to create a new revenue stream for the LSE for trade data routing and to transfer revenues associated with trade netting to be captured within the LSE group of companies. We believe that the spirit of the Code of Conduct is to prevent a dominant trading platform from using its market power and position to impede effective competition in clearing services.

EuroCCP would be happy to participate in a bidding process for trade data routing as well as to provide netting services for CCPs, should there be any that wishes to outsource this function. We are committed to achieve substantial cost savings in clearance services for the market in a manner which mitigates risk, is transparent, open, and in keeping with the Code of Conduct.

Yours truly,

