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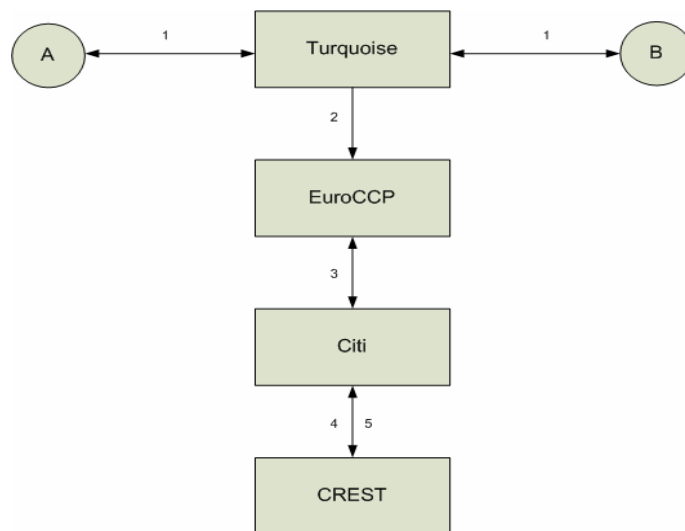
Turquoise trade feed – August 2008

Introduction

In August 2008, Turquoise, in conjunction with European Central Counterparty Limited ('EuroCCP') and Citibank N.A. London ('Citibank'), will introduce pan-European trading and Central Counterparty ('CCP') arrangements for trades executed on the Turquoise platform. In this model, EuroCCP will provide netting and clearing services (although it will not be a CREST CCP participant – further details are given below), and Citibank will act as a CREST central sponsor ('Central Sponsor'). Euroclear UK & Ireland will provide settlement services. These arrangements will not operate as part of the CREST CCP service, and Euroclear UK & Ireland's role is limited to those functions expressly described as undertaken by it in this newsletter.

Turquoise trade feed overview

Figure 1 illustrates the high-level flow between the Turquoise trading platform, EuroCCP, Citibank and Euroclear UK & Ireland.



Turquoise trade feed

Points to note regarding the Turquoise trade feed:

1. Turquoise members will execute trades on the Turquoise platform.
2. The details of the trade will be forwarded to EuroCCP on a gross basis.

3. Once all the individual trades for the day have been received from Turquoise, EuroCCP will create two net positions for each party, one for each buy and one for each sell position¹.
4. EuroCCP will instruct the settlement of netted trades to Euroclear UK & Ireland via Citibank, who will act as the Central Sponsor and forward the netted trades to Euroclear UK & Ireland's CREST system (the 'System') via MT518 Market Side Securities Trade Confirmation messages. Euroclear UK & Ireland will receive one MT518 for each net trade. Each MT518 will show the EuroCCP standard CREST Participant ID (EUCCP) as the counterparty. On receipt of an MT518, the System will create one transaction of type DEL, as both EuroCCP and the counterparty to the trade will be opted into direct input. The transaction will be treated in the System as a gross transaction.
5. The System will respond to each MT518, to confirm to the Central Sponsor that it has been received, and whether it was processed successfully or unsuccessfully. If the MT518 fails this validation, the Central Sponsor can correct it, and send a second message for processing by the System.
6. Users will need to opt into direct input to use this service and therefore matching settlement instructions will not be entered manually. For more details on this please refer to the direct input section below.

(Please also note that Irish Agency trades **will not** be netted. These will be forwarded to the System on a gross basis.)

GUI update

Euroclear UK & Ireland clients wishing to use this new service will need to update their GUI to version 23.00, which will be live from 23 June 2008. To request an update, please contact the Euroclear UK & Ireland Client Contact Centre on +44 (0)845 9645 648 or e-mail client_service_london@euroclear.com.

Settlement

There will be no change to the settlement algorithm used by the System as a result of the introduction of this service.

Service description

Please refer to the *CREST Reference Manual*, Chapter 4, for a description of the service provided by Euroclear UK & Ireland in relation to the Turquoise trade feed. (Please also note that this will be available from July 2008 onwards). This can be found on the Euroclear UK & Ireland section of www.euroclear.com in **Resources > Legal documentation > CREST Manual**.

For a description of the service provided by Turquoise, please refer to the Turquoise website www.tradeturquoise.com.

Turquoise members and settlement participants

In the System, Turquoise members will be represented as Trade System of Origin (TSO) participants, which represent the trading firms actually inputting trades on the trading system. Settlement firms in the System represent the trading firms at the level of settlement. For example, TSO participants may represent trading desks within a broker/dealer, and the settlement firm may represent the broker/dealer itself.

For Turquoise, there will be a one-to-one mapping between TSO participants and settlement firms. However, both will still exist as logically distinct entities in the System.

¹ Please refer to EuroCCP for more details on the netting algorithm used.

Trades received from EuroCCP (via Citibank) will fail validation in the System if the appropriate TSO participants and settlement firms do not exist in it.

TSO participants are setup by Euroclear UK & Ireland via a formal application from Turquoise.

The TSO used for Turquoise will be 'Q'.

Trade feed settlement parties

In order to create a DEL transaction for settlement in the System, the settlement arrangements are needed for every settlement firm. These arrangements are known as trade feed settlement parties and allow the System to derive the CREST participant and member account details to be used for a given central sponsor, settlement firm and TSO-dealing capacity.

Again, transactions received from EuroCCP (via Citibank) will fail validation if trade feed settlement party data does not exist in the System.

These arrangements are setup at the same time as the TSO participants via a formal request from Turquoise.

For further information on TSO participants, settlement firms and trade feed settlement parties, please refer to the Euroclear UK & Ireland white book, *Settlement netting and automatic matching through central sponsor arrangements*. This can be found on the Euroclear UK & Ireland section of www.euroclear.com, by typing 'settlement netting' into the search-engine in the top-right hand corner of the homepage.

Direct input

Participants may select the member accounts they wish to opt into for the Citibank-CREST central sponsor services. By default, member accounts will be opted out of central sponsor services and participants will therefore need to update their direct input options, as the netting algorithm employed might generate a settlement instruction which cannot be matched manually². Members can update their direct input options using Direct Input Option Amend (IDIA), available both interactively (on the GUI), and via File Transfer (FT). The direct input options currently applicable to a participant's member accounts may be retrieved interactively using the Direct Input Option List (IDIL), or via FT using the Direct Input Option Details (IDIQ).

CREST participants that act as settlement participants for the members of more than one trade venue may choose to settle all sets of transactions through the same or separate member account(s) in the System. Where settlement participants choose to settle transactions through the same member account, they may opt into direct input for the CREST central sponsors for each of the trade venue services they choose to settle through this member account; a CREST member can opt in to direct input for more than one CREST central sponsor per member account.

The CREST central sponsor ID for the Turquoise trade feed is CITIGBK1.

For further information on direct input, please refer to the Euroclear UK & Ireland white book, *Settlement netting and automatic matching through central sponsor arrangements*.

Settlement netting and settlement netting options

Trades for UK securities will be netted by EuroCCP, for each buy and for each sell position, before transactions are sent to the System on T+1 (i.e. the business day after the trade has been agreed on Turquoise). Settlement instructions for Irish Agency trades will be sent on a gross basis.

² It is possible for a strange net to generate a zero stock, zero cash settlement instruction, which cannot be matched manually.

Netting in the System will not be available in relation to Turquoise trades. Consequently, there is no Settlement Netting Principal for the Turquoise trade feed service. These transactions will be settled in the System on a gross basis.

EuroCCP will not forward details of the underlying trades of each net transaction to the System. Accordingly, members will not be able to view the constituents of a net transaction in the System; these transactions are treated as gross.

Central counterparty

EuroCCP will be acting as a central counterparty for CCP-eligible trades executed on the Turquoise platform. Each party to a Turquoise trade will see EuroCCP as its counterparty in the System. However, EuroCCP will not be set up in the System as a participant of the type 'CCP' and will not be using the additional functionality available to a CREST CCP participant. EuroCCP will be set up in the System as a participant of the type 'Member'.

The CREST Participant ID for EuroCCP will be 'EUCCP'.

Automatic splitting

To optimise settlement efficiency, participants may opt to use the automatic splitting functionality. Members should note that only DEL and CLA transactions will be split when automatic splitting is running for non-CCP participants.

For more information on automatic splitting, refer to the CREST white book *Automatic splitting of unsettled transactions*, which can be found on the Euroclear UK & Ireland section of www.euroclear.com by typing 'automatic splitting' into the search-engine.

Corporate actions

Standard non-CCP corporate action processing rules will be applied to Turquoise transactions. For further information relating to corporate actions in the System, please refer to the following Euroclear UK & Ireland publications, available on the Euroclear UK & Ireland section of www.euroclear.com:

- the Euroclear UK & Ireland white book *Automatic transformations*, which can be found by typing the title into the search-engine; and
- the *CREST Manual* in **Resources > Legal documentation > CREST Manual**.

Market claims

The System will apply the existing non-CCP business rules for raising and processing claims on transactions involving a participant of the type 'Member'. EuroCCP will not raise claims on the underlying trades.

Irish stamp duty

EuroCCP is responsible for ensuring that their reporting obligations are met with the Financial Services Authority (FSA) and for negotiating clearing relief for themselves and their clearing members, i.e. relief from Irish stamp on the gross transactions.

The process of assessing and, where applicable, collecting Irish stamp duty in the System remains unchanged. The System will receive a gross feed for transactions involving Irish securities and these will be evaluated for Irish stamp duty.

CREST settlement participants can use the Own Account Transfer (OAT) transaction type to enable them to calculate and collect Irish stamp duty on the underlying gross transactions on behalf of their Turquoise members.

Exemption forms for Irish stamp duty will be available from Turquoise via their website www.tradeturquoise.com.

For detailed information on Irish intermediary relief, please refer to the Euroclear UK & Ireland white book *Irish stamp duty: reliefs for principal traders* available on the Euroclear UK & Ireland section of www.euroclear.com in **Services > International service > Operational documentation**.

Stamp Duty Reserve Tax (SDRT)

EuroCCP is responsible for ensuring that their reporting obligations are met with the FSA, and for negotiating clearing relief for themselves and their clearing members, i.e. relief from SDRT on the gross transactions.

The process of assessing and, where applicable, collecting SDRT in the System remains unchanged. The transactions will be treated as gross in the System and therefore will be evaluated for SDRT. Transactions may obtain relief from SDRT, where applicable reliefs are assessed as available in the System.

CREST settlement participants can use the OAT transaction type to enable them to calculate and collect SDRT on the underlying gross transactions on behalf of their Turquoise members.

Exemption forms for SDRT will be available from Turquoise via their website www.tradeturquoise.com.

For detailed information on SDRT, please refer to the Euroclear UK & Ireland white book *UK Stamp Duty Reserve Tax: reliefs for principal traders* available on the Euroclear UK & Ireland section of www.euroclear.com by typing 'UK stamp duty' into the search-engine.

Transaction reporting

EuroCCP is responsible for ensuring that their reporting obligations are met with the FSA.

CREST participants can use the transaction reporting functionality available via the direct input options to opt out of transaction reporting to the FSA. This functionality is available via the interactive Direct Input Options screen (IDIL/IDIM), the file transfer Direct Input Option Details messages (IDIQ/IDIP) and the IDIA. Where the suppression of transaction reporting is required, the Transaction Report Marker field should be set to 'No Transaction Reporting'.

It will be possible for settlement participants acting on behalf of Turquoise members to input transaction reporting instructions separately on the underlying gross transactions using the OAT transaction type.

For transaction reporting purposes, the Venue of Execution for trades executed on this platform will be the MIC code 'TRQX'.

For detailed information on transaction reporting, please refer to the Euroclear UK & Ireland white book *Enhancing CREST: November 2007 – MiFID-compliant transaction reporting through CREST* available on the Euroclear UK & Ireland section of www.euroclear.com in **Services > Settlement > Transaction reporting post MiFID**.

Settlement Discipline

Settlement participants that are counterparties to EuroCCP will be subject to the usual Settlement Discipline rules for market firms and non-market firms, as appropriate.

Matching and settlement fines will be applicable at the existing rates.

For further information on Settlement Discipline rules, please refer to the Euroclear UK & Ireland white book *CREST Settlement Discipline: Overview of rules and common questions* available on the Euroclear UK & Ireland section of www.euroclear.com in **Services > Settlement > Settlement Discipline**.

Tariff

Standard charges will apply.

For more information on the Euroclear UK & Ireland tariff and the charge amounts levied, please refer to the Euroclear UK & Ireland section of www.euroclear.com in **About > Tariff**.

Diary events

There are no new diary events to be added to the System timetable. The existing timetable for Delivery versus Payment (DvP) settlement will be unchanged. For further information on the System diary events, please refer to the Euroclear UK & Ireland white book *CREST diary events and the daily timetable* available in the Euroclear UK & Ireland section of www.euroclear.com by typing 'diary events' into the search-engine.

Regulators

Regulatory reporting obligations for the UK and Irish revenue authorities and the FSA will be carried out as normal by the CREST system in respect of the transactions received from Turquoise trades; these will be reported as gross transactions.

Further information

Should you have any questions regarding this technical newsletter, please contact the Business Analysis Team at **CREST_BA@euroclear.com**.