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Competitive Clearing: Why Multiple CCPs?

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Nordic market evolution

2008

- Competition for the market:
 - Which CCP?

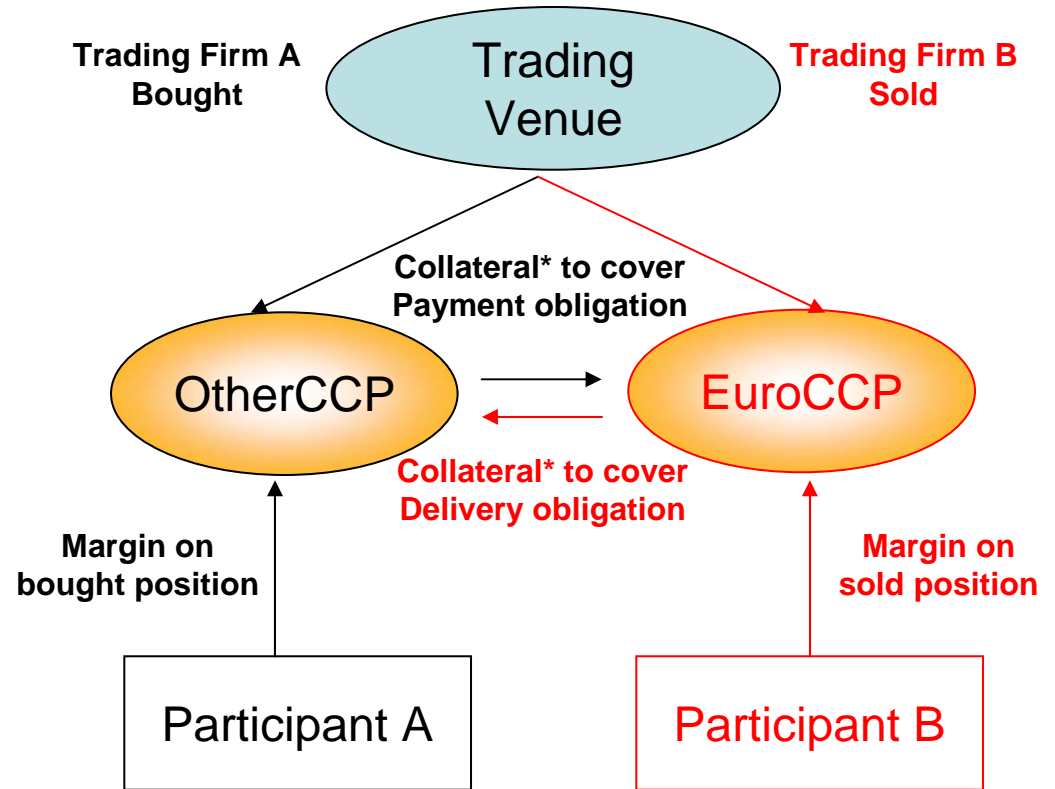
2009

- Competition in the market:
 - Which CCP for me?



How competitive clearing works

1. Trading venue sends trades to the CCP selected by the Trading Firm
2. Each CCP manages its exposure to the other's inability to fulfill obligations by collateralisation
3. If OtherCCP is bankrupt, EuroCCP will use collateral from OtherCCP to cover any losses and expenses involved in closing out OtherCCP's obligations to EuroCCP



* Cash, securities, or letter of credit, as agreed between the CCPs



Competition in clearing is EU policy

- A single EU capital market requires elimination of national boundaries and national monopolies
- MiFID has encouraged new MTFs that compete with national exchanges
- Trading firms want choice of where they trade and choice of the CCP they use
- Competition delivers choice to users



Enterprises have diverse needs

Trading Platforms

NASDAQ OMX

NASDAQ OMX MTF

Burgundy

Oslo Bors

Chi-X

Turquoise

...others

Trading Firms

Local

Multi-market Nordic

Remote

Multi-market Europe

Proprietary trading

Agency only

Large

Small



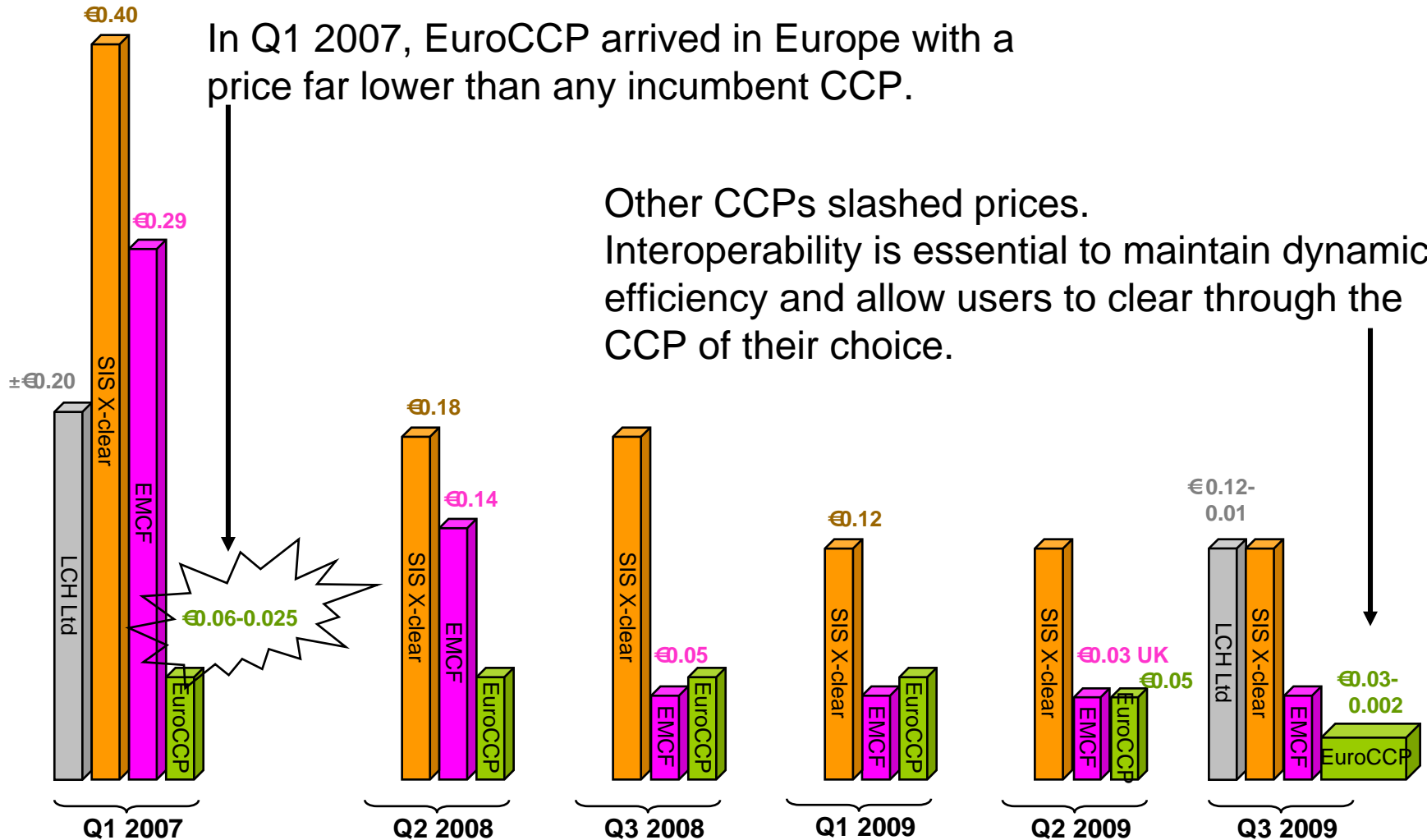
Economics drive choice of CCPs

- Trading venues appoint CCPs, based on their own economic interests
- Trading firms pay for CCP services; their choice is influenced by a CCP's
 - Transaction fees
 - Financing cost of collateral
 - Penalties & other hidden costs
 - Implementation / switching costs
 - Service capabilities, responsiveness



The benefits of competition are clear

In Q1 2007, EuroCCP arrived in Europe with a price far lower than any incumbent CCP.



Other CCPs slashed prices.

Interoperability is essential to maintain dynamic efficiency and allow users to clear through the CCP of their choice.

Average unit cost to clear one side of a transaction.

Source: EuroCCP analysis based on publicly available information.



Bilateral agreements can bar competition

No. of Interoperating CCPs

2

3

4

5

6

7

8

9

No. of Bilateral Agreements

1

3

6

10

15

21

28

36

Some concluded and others in progress

Barrier to pan-European interoperability

To simplify interoperability and make it safer, CCPs should, as soon as practicable, replace multiple bilateral agreements with a single interoperability convention that is made transparent to trading venues, market participants, and regulators



European market evolution

2010

- Ensuring implementation of meaningful interoperability
 - Users should be choosers
- Making interoperability safe
 - Transparent inter-CCP risk management
 - Certainty of problem resolution
 - Clear, practical change management processes that respect peer-to-peer relationship of interoperating CCPs



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