



Media release

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virt-x, LCH and x-clear to launch first pan-European central counterparty structure in March 2003



The London Clearing House (LCH), x-clear, the Swiss central counterparty (CCP), and virt-x plc, the operator of the virt-x pan-European cross border exchange, announce today the launch of the first pan-European CCP structure in March 2003.

The structure will support two interlinked CCPs provided by LCH and x-clear, allowing virt-x members a choice of service. Both CCPs will clear the full range of stocks traded on virt-x.

virt-x and its members will benefit from the risk management, optional settlement netting and post trade anonymity provided by the CCP service:

- The prime purpose of a CCP is to eliminate counterparty risk for members on market trades. In an anonymous trading environment the certainty of counterparty performance cannot be managed entirely by members' in-house measures. With the interposition of a CCP between every buyer and seller, a member has only one counterparty – the CCP. The CCP provides a virtually risk free environment to the market through the efficient measurement of risk and collateralisation via margin cover, default funds and external insurance to protect itself and the market from member default.
- Member's who choose the optional settlement netting service will see their trades netted and settled against their selected CCP rather than against their original trading counterparty. This delivers very considerable cost benefits – netting will significantly reduce the number of daily settlements, reduce the number of settlement fails, deliver capital cost savings, operational risk reductions and enhance system capacity.
- An electronic order book allows members to post orders anonymously. With the introduction of a CCP this anonymity will be retained throughout the lifecycle of the trade. This protects members' trading strategies and reduces the risk of market impact on institutional orders.

A pan-European CCP structure will add significantly to the reductions in cross border trading and settlement cost already achieved by the virt-x model. In

addition to the direct transaction costs, trading firms will also benefit from reduction in the indirect costs associated with the additional administration and risk management required to address the differences in legislation in the jurisdictions in which the trading venues and their trading counterparties operate.

Commenting on the announcement Antoinette Hunziker-Ebnetter, virt-x's CEO, said:

"The launch of a pan-European CCP structure in March 2003 will complete virt-x's integrated trading, clearing and settlement model and is consistent with our strategy of establishing virt-x as the pan-European blue chip market of choice. This integrated straight through processing environment will further simplify the process of trading securities cross border and deliver real operational, risk and cost benefits to members."

David Hardy, LCH Chief Executive, said

"LCH is delighted to take such a prominent position in the development of the virt-x market. This is the second central counterparty service to be launched by LCH EquityClear®, and further highlights the demand for a value adding CCP model for equities, that delivers anonymity, reduces operational risks and costs, provides greater security and, through netting, minimises the number and value of settlements. This development will contribute to our aim to deliver the maximum cross border clearing and settlement benefits to our international membership. LCH's role as a CCP has quickly established itself as a key feature of cash equity market trading and a major benefit to the underlying central market".

Heinz Haeberli, CEO of the SIS Group, said:

"The establishment of x-clear as a CCP for virt-x marks an important milestone in the further development of the Swiss-based European Value Chain, which is designed and committed to offering low-cost but highly sophisticated and automated clearing and settlement services to its domestic and international members. This will enable true and seamless straight through processing for all markets covered by virt-x. x-clear relies on the strong support from SIS members to which it offers a tailor-made solution within the framework of the widely acknowledged SIS infrastructure."

About virt-x

virt-x Exchange Limited, a part of the SWX Group, is a Recognised Investment Exchange supervised by the Financial Services Authority. virt-x is the home market for the Swiss Market Index securities and also offers direct, real-time access to trading in the constituents of all the major pan-European blue chip indices, facilitating sector and index trading. virt-x has an integrated trading, clearing and settlement model which simplifies the process of trading pan-European blue chips and provides scope for significant reduction in cross border transaction costs.

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