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Euroclear response to the consultation by CESR and ESCB on the draft recommendations for central counterparties as revised for CCPs clearing of OTC derivatives

Euroclear welcomes the opportunity of giving its views on the draft changes to the ESCB/CESR recommendations for CCPs related to clearing of OTC derivatives. As a provider of securities settlement, custody and collateral management services¹, we are not subject to the recommendations for CCPs. Our comments therefore, relate to the generic emphasis that is placed on the need to improve the infrastructure supporting OTC derivatives (as highlighted in paragraph 12 of the consultation).

We fully support the EU and global focus on counterparty risk reduction in the derivatives area which understandably leads to a generalised call for the development of CCP clearing solutions for OTC derivative transactions.

Within this context, Euroclear Bank has developed a service for the OTC derivative markets, DerivManager, the main feature of which is to allow parties to a derivatives transaction to collateralise their counterparty exposure in a dynamic and efficient way for all classes of OTC derivatives trades. We are of the view that this offers an interesting complement to existing and future CCP services for OTC derivatives and fits within the generalised call for a structural risk management solution in this market. DerivManager can be specifically appealing as a risk management solution for those OTC derivatives transactions that cannot (yet) be subject to CCP clearing, e.g. because the contracts are not (yet) sufficiently standardised.

In short, DerivManager:

- Allows banks to focus on mismatches and exposure discrepancies by introducing standardization and automation;
- Delivers a solution which also covers the non-standardized contracts where often real challenges and risks lie;

¹ Euroclear group comprises the international central securities depository Euroclear Bank, based in Brussels, as well as the national central securities depositories (CSDs) Euroclear Belgium, Euroclear France, Euroclear Nederland, Euroclear UK & Ireland and NCSD, the CSD for Finland and Sweden.



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- Standardises the dispute resolution process and allows collateralisation of the disputed exposure;
- Automates the full process between trade and collateral (STP); and
- Offers a collateral management solution that is highly secure, allows the use of different types of collateral and ensures independent valuation.

We hope that CESR and ESCB will recognise in the final Recommendations that the existence of infrastructure solutions other than a CCP solution can also help to reduce substantially counterparty exposure for OTC derivative transactions.

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