

N° 2006-0132, of 30 August 2006

RISK DEPARTMENT

MARGIN PARAMETERS FOR THE EURONEXT AMSTERDAM, BRUSSELS, LISBON, PARIS LISTED SECURITIES AND FOR DUTCH TRADING SEGMENT (DTS) OF LONDON STOCK EXCHANGE

Pursuant to the instruction I.5-3, LCH.CLEARNET SA sets the new margin parameters for the SPAN ® algorithm.

These modifications concern:

- **Parameters for the intermediary liquidation risk (Bonds)**
- **Duration intra-class charge (Bonds)**
- **Duration inter-class charge (Bonds)**

The changed SPAN algorithm parameters are printed **in bold** in the appendix.

These amounts shall come into effect with the margin call on the morning of **Friday 1st September 2006**, for the positions at the close of **Thursday 31 August 2006**.

The clearing members shall require margins from clients and trading members on the basis of principles defined in Article 1.5.1.6 of the clearing Rule Book.

These parameters are applied as part of the SPAN ® methodology available on the LCH.CLEARNET web site: www.lchclearnet.com / SA / Risk & Operations / Margining Methodology / Methods / Methodology SPAN ® Cash

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Clearing Organization SBF**CO SBF SHARES (Algorithm using the Liquidity Classes)****Parameters for the intermediary liquidation risk**

Liquidity Class ¹	x % ²	y % ³
LQ1ZZ	5.50 %	3.00 %
LQ2ZZ	8.60 %	3.00 %
LQ3ZZ	4.30 %	3.50 %
LQ4ZZ	22 %	18 %

Liquidity inter-classes credit

Priority	Coefficient inter ⁴	Liquidity class 1	Side of the overall net position ⁴	Liquidity class 2	Side of the overall net position ⁵
1	1.5 %	LQ1ZZ	A	LQ2ZZ	B
2	1.3 %	LQ1ZZ	A	LQ3ZZ	B

All securities have been re-assigned in liquidity class regarding following criteria:

- **LQ1ZZ:** stocks in main indices (AEX+BEL20+CAC40+PSI)
- **LQ2ZZ:** other continuously traded stocks
- **LQ3ZZ:** ETF, investment funds
- **LQ4ZZ:** fixing traded stocks and others

Note that: the study concerning the correlation between the various liquidity classes, shows that the general market risk (y) could be reduced by 50% between LQ1ZZ and LQ2ZZ and 40% between LQ1ZZ and LQ3ZZ.

To obtain the inter coefficient for each priority, the following formula is applied:

- for priority 1: $(0,5*y_1+0,5*y_2)/2$

- for priority 2: $(0,4*y_1+0,4*y_3)/2$.

¹ ZZ= Currency Code

² X = Specific risk applied to the overall gross position (PA + PV)

³ Y = General market risk applied to the overall net position (PA - PV)

⁴ The Inter Coefficient is applied to the smallest common overall net position (PA - PV) between the concerned liquidity classes

⁴ The A/B side means that positions on the liquidity classes must have opposite sides

CO SBF BONDS (Algorithm using Duration Classes)**Parameters for the intermediary liquidation risk**

Duration Class	x %¹	y %²
DR4ZZ	0.12%	0.09%
DR5ZZ	0.07%	0.13%
DR6ZZ	0.40%	0.17%

Duration intra-class charge

Duration Class	Intra Coefficient³
DR4ZZ	0,08 %
DR5ZZ	0,07 %
DR6ZZ	0,09 %

Duration inter-classes credit

Priority	Coefficient Inter⁴	Duration Class 1	Side of the overall net position⁵	Duration class 2	Side of the overall net position⁵
1	0,05 %	DR5ZZ	A	DR6ZZ	B

¹ X = Specific risk applied to the overall gross position(PA + PV)

² Y = General market risk applied to the overall net position (PA - PV)

³ The intra coefficient is applied to the smallest common value between the net buying positions and the net selling positions of the concerned duration classes

⁴ The inter coefficient is applied to the smallest common overall net position (PA - PV) between the concerned duration classes

⁵ The A/B side means that overall net positions (PA - PV) on the duration classes must have opposite sides

Parameters in order to increase the negotiation risk

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CO SBF **SHARES (or similar categories)**

In case of non quotation

Liquidity class	Buying c_1	Selling c_2
LQ1ZZ	1 %	1 %
LQ2ZZ	1 %	1 %
LQ3ZZ	1 %	1 %
LQ4ZZ	1 %	1 %

In case of significant variations

Liquidity class	Stop-loss threshold (1)	Buying c_3	Selling c_4
LQ1ZZ	14 %	10 %	10 %
LQ2ZZ	14 %	15 %	15 %
LQ3ZZ	20 %	20 %	20 %
LQ4ZZ	20 %	20 %	20 %

(1) The variation to the “stop-loss” threshold compared with previous day prices must be:

- strictly inferior for negative variation prices
- strictly superior for positive variation prices

CO SBF

BONDS

In case of non quotation

Duration class	Buying c₁	Selling c₂
DR4ZZ	-	-
DR5ZZ	-	-
DR6ZZ	-	-

In case of significant variations

Duration class	Stop-loss threshold (1)	Buying c₃	Selling c₄
DR4ZZ	1 %	0.2 %	0.2 %
DR5ZZ	5 %	1.0 %	1.0 %
DR6ZZ	10 %	2.0 %	2.0 %

(2) The variation to the “stop-loss” threshold compared with previous day prices must be:

- strictly inferior for negative variation prices
- strictly superior for positive variation prices

Currency Table

Currency	SPAN Currency code "ZZ"	Name	Parameters for currency risk
AUD	AU	Australian dollar	4%
BTN	BT	Bouthan ngultrul	8%
CAD	CA	Canadian dollar	4%
CHF	CH	Swiss franc	4%
DKK	DK	Danish krone	4%
EUR	EU	Euro	0%
GBP	GB	Pound sterling	4%
HKD	HK	Dollar Hong-Kong	4%
HUF	HU	Hungarian forint	8%
JPY	JP	Japanese yen	4%
MXN	MX	Mexican peso	8%
NOK	NO	Norwegian krone	4%
NZD	NZ	New Zealand dollar	4%
PLN	PL	Polish zloty	8%
SEK	SE	Swede krone	4%
SGD	SG	Singaporean dollar	8%
TRY	TR	Turkish lira	8%
USD	US	American dollar	4%
ZAR	ZA	South Africa rand	8%

Foreign exchange risk methodology:

Conversion of Initial Margin is done at Member Code / PB Segregation type / PB Account /Currency level.

Negotiation risk

A negative Negotiation Risk is a charge and the parameter for the currency risk is used to increase the risk amount (to cover the foreign exchange risk). The conversion formula for the Negotiation Risk is therefore:

$$\text{Negotiation Risk in Euro} = \text{Negotiation Risk in currency} / \text{currency exchange rate} * A$$

With:

A = 1 + rate for currency risk if Negotiation Risk is negative (to increase charge)

A = 1 - rate for currency risk if Negotiation Risk is positive (to decrease credit)

Liquidation risk

The Liquidation Risk is always a charge, so we use the same conversion formula than for the negative negotiation risk.

$$\text{Liquidation Risk in Euro} = \text{Liquidation Risk in currency} / \text{currency exchange rate} * B$$

With:

B = 1 + rate for currency risk (to increase charge).