

EMCF – Frequently Asked Questions

What is EMCF?

The European Multilateral Clearing Facility N.V. (EMCF), founded in March 2007, is Europe's largest cash equities clearing house and offers clients a cost-effective way of confidently managing settlement risks. It provides a reliable and timely service, which combines robust risk management practices with a transparent pricing structure so clients understand exactly what they are paying for.

EMCF offers Central Counterparty Clearing House, or CCP, services to more than 60 financial-service providers in 18 European countries, using eight Multilateral Trading Facilities (MTFs): BATS Europe, Chi-X Europe, NASDAQ OMX Nordics (Denmark, Finland & Sweden), Quote MTF, Burgundy, and TOM.

What are EMCF's key business activities?

EMCF delivers CCP services for 19 European markets through eight MTFs and exchanges, serving about 50 European financial-service providers. Clearing volumes exceed 3.5 million transactions per day, which is about 30 percent of total European equity volumes.

What does Central Counterparty Clearing mean?

Central counterparty clearing involves the legal transfer of obligations to a central counterparty, which becomes the buyer to the seller and the seller to the buyer. With the CCP counterparty risk - or the risk that one party to a trade suffers losses because the other party cannot fulfil its obligations - is mitigated. Central counterparty clearing enables netting of trades, which provides significant cost savings from lower margin requirements, fewer settlements, and simpler operations.

Who owns EMCF?

ABN AMRO Clearing Bank N.V. has a 77 percent stake, OMX AB owns 22 percent while ABN AMRO Bank N.V. holds the remaining 1 percent.

Cooperation with SWIFT

EMCF provides settlement obligation messaging to its clearing participants via SWIFT. By using this standardised format EMCF conforms to European market-practice harmonisation initiatives and reduces operational risks and costs. The service is in compliance with IOSCO (International Organization of Securities Commissions) recommendation No. 12, efficiency, which states that, while maintaining safe and secure operations, CCPs should be cost effective in meeting the requirements of participants. Likewise it is compliant with the Giovannini Protocol Barrier 1, which was designed to standardise communication within the European clearing and settlement landscape.

How does EMCF manage their risks?

EMCF uses the most advanced and prudent risk management practices in the industry. EMCF updates positions and re-calculates margin requirements every three minutes. Their near real-time risk monitoring system reduces exposure to default by

clearing parties. EMCF uses a sophisticated risk management system (Correlation Haircut System (CoH)) validated by both the Dutch and the UK financial-markets regulators.

What is interoperability?

Interoperability is the ability of a system or a product to work with other systems or products without special effort on the part of the customer. Interoperability creates inter-CCP exposure: each CCP becomes a counterparty to the other interoperating CCPs and therefore needs additional financial resources to cover its exposure to the possible failure of any of the linked CCPs. Interoperability will bring significant advantages to the European equities environment, delivering greater efficiency, reduced costs and a wider choice of clearer for the trading community.

Why is interoperability important?

Market participants want competition on every level. Interoperability will enable multiple central counterparties to service the same markets and platform – in other words, create real competition between CCPs. Right now, there is typically one CCP service per platform. Through interoperability, customers will be able to net all trades, saving costs. Interoperability plays a vital role in the strategy to increase efficiency and lower costs in European securities markets.

How many trades does EMCF clear?

Clearing volumes average 3.5 million transactions per day, representing as much as 30% of total European equity volumes, ranking it Europe's top cash equities CCP.

EMCF cleared a record with more than 5 million trades in a single day on Friday 6 February 2010. That number is 20 percent higher than the previous record reached two weeks earlier on 22 January 2010 of 4 million.

What is novation?

The first stage in the clearing process, once the trade has been registered, is to replace the single contract between parties with two separate ones, linking EMCF to the buyer and the seller. This process, known as novation, allows the market to remain anonymous.

What is netting?

Netting converts the obligations between parties into a single balance, which can then be used to determine the settlement terms. Netting takes place on a multilateral basis. It may be done by International Securities Identification Number, currency, client house number or combined account at a level specified by the clearing participant.