

Press Release

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LCH.Clearnet to accept gold as collateral

LCH.Clearnet Ltd (LCH.Clearnet) is to extend the range of eligible collateral types to include gold bullion by the end of October 2011, subject to final regulatory approval.

In accepting gold as cover for margin liability, LCH.Clearnet is delivering greater choice and flexibility to market participants. Globally, gold has seen rapid growth in investment and regulators are looking for more OTC derivatives to be cleared.

The initiative is supported by the World Gold Council, who recently submitted evidence to the Basel Committee for gold to be included in banks' "Tier 1" assets by European banking regulators, recognising gold's growing relevance as a high quality liquid asset.

The gold will be lodged in vaults in London. The quality and fineness of the 400 troy ounce gold bars will be based on the LBMA Good Delivery List.

David Farrar, Director, LCH.Clearnet said "Market participants want greater choice when it comes to assets that can be used as collateral. Gold is ideal; as an asset it typically performs well in times of financial stress, remains liquid and has a well established pricing mechanism."

In December 2010, LCH.Clearnet launched the first clearing service for the OTC wholesale London gold market in a joint initiative with the London Metal Exchange. The service allows bilateral OTC trades to continue to be negotiated and executed as per current market practices. Contracts are captured via LME's trade capture system, LMEsmart, with matched bilateral trades submitted to LCH.Clearnet for clearing.

The service will be available for members clearing OTC gold bullion and gold contracts on the Hong Kong Mercantile Exchange.

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