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Agency Cash Management (ACM)

Agency Cash Management (ACM) from Newedge and MTS is an innovative and timely solution to the cash management challenges being faced by both buy- and sell-side institutions in the current economic landscape.

In the face of continuing market uncertainty, cautious investors have moved to reduce exposure to market risk by holding a higher percentage of cash and short-dated bonds over other investments. However, increasingly this market risk is being replaced with counterparty credit risk.

Meanwhile, banks are facing their own cash management challenge rooted in a shortage of term liquidity and are coming under continued pressure to diversify their sources of funding in the face of Basel III.

Agency Cash Management

ACM is an electronic auction platform that enables cash-rich investors to enter into secured money market investments via the tri-party repo mechanism. By providing an alternative to the traditional suite of unsecured money market products, the platform offers access to low-risk cash management investment opportunities.

By bringing a new pool of cash providers to the market, the platform will also benefit banks facing continued pressure to diversify their sources of funding in the face of Basel III.

The platform is built on the same robust technology that facilitates the MTS fixed income market, combining secure investment opportunities with the competition and efficiency offered by electronic trading on a regulated multilateral trading facility.

In association with
Newedge

ACM is an MTF managed by EuroMTS Ltd

1 How does ACM work?

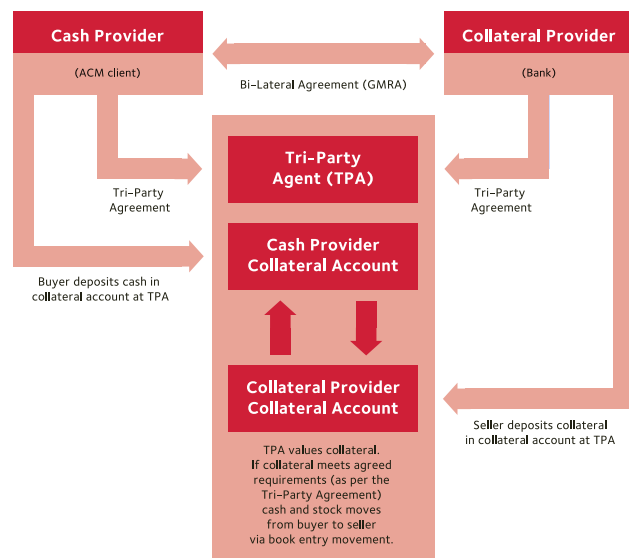
The ACM service permits non-institutional investors to participate in a US\$10+ trillion institutional repo market, enabling them to reduce risk and increase yield without sacrificing liquidity.

ACM enables investors to select acceptable counterparties, collateral, currencies and duration. Collateral is held in a segregated account in the investor's name at an established tri-party agent and is subject to transfer of ownership so that it can be sold on demand if the counterparty defaults.

Banks are increasingly facing a shortage of term liquidity. Some banks are willing to offer high grade, liquid collateral (e.g. investment grade unsubordinated debt or prime index equities) at enhanced yields instead of other money market instruments to secure sources of term funding.

Depending on the collateral pool and the cash taker's profile, the tri-party repo product can provide investors with an enhanced yield compared to their current money market returns

The new ACM service will permit investors to mitigate counterparty risk by collateralising credit exposures with diversified pools of traded securities.



2 Why ACM – what are the advantages?

- ◆ Low-risk investment opportunities – improved cash management for buy-side
- ◆ New investor base – additional source of funding for sell-side
- ◆ Access to wholesale pricing – cash placed via daily cash auctions
- ◆ Tri-party agent offering robust settlement engine – segregation of assets and daily margining
- ◆ Bespoke auction methodology to ensure best execution
- ◆ Best-in-class innovative technology – reliable and proven system
- ◆ Improved liquidity in market overall – enhanced opportunities for all
- ◆ Regulated multilateral trading facility (MTF)

3 What is a tri-party repo (TPR)?

Economically, a TPR works in the same way as a classic repo. A collateral provider agrees terms with the cash provider to sell a collateral pool and to repurchase the collateral pool back at a future date for an agreed price.

There are a number of operational differences, the most significant difference being that a custodian bank or international clearing organisation (tri-party agent, “TPA”) is appointed to act as an intermediary between the collateral provider and the cash provider to manage collateral.

The parties to the TPR and the TPA will sign a Collateral Management Agreement which defines how the TPA will administer the transaction including collateral allocation, marking to market and substitution of the collateral provided by the collateral provider.

Connecting a new group of participants to the tri-party repo market will improve liquidity in the market overall, both allowing funds and corporates to invest their cash securely and banks to raise funds effectively in the face of Basel III continued pressure to diversify their sources of funding.