



VIA CFTC PORTAL

17 February 2015

Mr Christopher Kirkpatrick
Commodity Futures Trading Commission
1155 21st Street NW
Three Lafayette Centre
Washington DC 20581

Dear Mr Kirkpatrick:

Pursuant to CFTC regulation §40.6(a), LCH.Clearnet Limited ("LCH.Clearnet"), a derivatives clearing organization registered with the Commodity Futures Trading Commission (the "CFTC"), is submitting for self-certification changes to its rules with respect to the provision of a client buffer sub-account ("Client Buffer Account") in the SwapClear service for clients of SwapClear Clearing Members ("SCMs").

LCH.Clearnet intends to implement these rule changes on, or after March 9, 2015.

Part I: Explanation and Analysis

The LCH.Clearnet SwapClear service is introducing an optional Client Buffer Account functionality to its SCMs. This functionality will not be offered to clearing members that are FCMs or to US customers. It will only be available for SCMs and customers using customer accounts under EMIR segregation models.

The following rule changes enable an SCM to request LCH.Clearnet to open a "Client Buffer Account" within the Proprietary Account of the SCM, and transfer cash collateral, in a currency acceptable to LCH.Clearnet, to such Client Buffer Account, which will be used to support the registration of, and to meet any other intraday margin requirements in connection with, SwapClear Contracts in the Client Account(s) of such SCM.

It is optional as to whether an SCM chooses to open a Client Buffer Account and/or transfer Client Buffer to such account.

The introduction of the Client Buffer arrangement will enable clients of an SCM to clear transactions with LCH.Clearnet more easily and to reduce the need for an SCM using the Client Buffer arrangement to make intra-day margin payments in relation to its Client Accounts.

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Part II: Description of Rule Changes

General Regulation

The General Regulations have been updated to add Client Buffer to the definitions sections, and to update other definitions to include Client Buffer. Additions to Regulation 10(d) include Client Buffer as an account type. Revisions to Regulation 11(l) and (s) set out that Client Buffer will be used to cover shortfalls in Client Accounts to the extent available, where a Clearing Member (other than a Futures Commission Merchant Clearing Member) request a Client Buffer account be opened.

Procedures Section 2C (SwapClear)

Section 1.3.3 has been updated to include the Client Buffer as available Collateral. These insertions set out that the manner in which Client Buffer can be used by SCMs and their Clients, including the order in which it will be used versus other Collateral received by SCMs and Clients. Specifically the rule changes note that Client Buffer will be used only to support registration of Client business. When in use, and enabling registration of Client business, it will be recorded as supporting that Client Account. The facility is used on a first come first served basis, and will remain on the Client Account until it is no longer required or at the end of the day. At such time, the Collateral will be returned to the Client Buffer Account. In the event of a SCM default any Client Buffer in use by any Client Account will remain on the Client Account and will not form part of the defaulting SCM's estate.

References to Client Buffer have been added to all relevant sections of the Procedures.

Procedures Section 3 (Financial Transactions)

A collateral account for the purposes of recording Client Buffer has been included in Section 1.1.1 of these Procedures.

Procedures Section 4 (Margin and Collateral)

Section 1.2.2 has been updated to set out that any Client Buffer which is not being used by a Client of the SCM can be used in the event that that SCM were defaulted. Client Buffer which has been applied to any Client Account will not be used for this purpose.

The changes to the General Regulations are included at Appendix I, Procedures Section 2C at Appendix II, Procedures Section 3 at Appendix III and Procedures Section 4 at Appendix IV.

Part III: Core Principle Compliance

LCH.Clearnet has concluded that compliance with the Core Principles will not be adversely affected by this change.



Part IV: Public Information

LCH.Clearnet has posted a notice of pending certification with the CFTC and a copy of the submission on LCH.Clearnet's website at:

<http://www.lchclearnet.com/rules-regulations/proposed-rules-changes>

Part V: Opposing Views

There were no opposing views expressed to LCH.Clearnet by governing board or committee members, members of LCH.Clearnet or market participants that were not incorporated into the rule.

Certification

LCH.Clearnet Limited hereby certifies to the Commodity Futures Trading Commission, pursuant to the procedures set forth in the Commission regulation § 40.6, that attached rule submission complies with the Commodity Exchange Act, as amended, and the regulations promulgated there under.

Should you have any questions please contact me at julian.oliver@lchclearnet.com.

Yours sincerely,

pp. 

Julian Oliver
Chief Compliance Officer
LCH.Clearnet Limited



Appendix I
General Regulations



**GENERAL REGULATIONS OF
LCH.CLEARNET LIMITED**

"Clearing House Applied Collateral"

means, in respect of an account of a Clearing Member, any cash Collateral provided by the Clearing House in respect of which the Clearing Member's obligation to return such Collateral has been discharged pursuant to the Rulebook by means of that return obligation having been set-off against an obligation owed by the Clearing House to that Clearing Member, as contemplated by Regulation 20(v)

"Clearing House Current Collateral Balance"

means, in respect of an account of a Clearing Member, all cash Collateral which has been transferred by the Clearing House to that Clearing Member (or which would, but for the application of Regulation 57(d) or another comparable payment netting provision applying in the ordinary course of business, have been transferred by the Clearing House to that Clearing Member) on account of the Clearing House's variation margin obligations relating to the relevant account pursuant to the Rulebook, less any Clearing House Applied Collateral and any Clearing House Returned Collateral in relation to that account; **provided that** any amounts transferred by the Clearing House to the Clearing Member for the purpose of settling an obligation in respect of daily settlement amounts pursuant to Regulation 23(c) which is due and payable do not form part of the Clearing House Current Collateral Balance; **provided further that:** (x) any Collateral standing to the credit of a Client Buffer Account shall, except where the relevant Clearing Member is a Defaulter or where a Termination Date specified by the relevant Clearing Member has occurred under Regulation 45, not form part of the Clearing Member Current Collateral Balance in respect of the relevant Proprietary Account; and (y) any Collateral transferred from a Client Buffer Account to a Client Account shall form part of the Clearing Member Current Collateral Balance in respect of the relevant Client Account unless and until it is transferred back to the Client Buffer Account (whereupon it shall cease to form part of the Clearing Member Current Collateral Balance in respect of the relevant Client Account).

"Clearing House Returned Collateral"

means, in respect of an account of a Clearing Member, any cash Collateral: (i) which a Clearing Member has returned to the Clearing House; or (ii) in respect of which the obligation to return such Collateral has been discharged as a result of the operation of Regulation 23(c) or as a result of the operation of Regulation 57(d) or another comparable payment netting provision applying in the ordinary course of business

"Clearing House Prescribed Language"

means, in relation to Client Clearing Business, the wording prescribed by the Clearing House for inclusion in the

pursuant to the relevant Deed of Charge has been released); or (ii) in respect of which the obligation to return such Collateral has been discharged as a result of the operation of Regulation 23(c) or as a result of the operation of Regulation 57(d) or another comparable payment netting provision applying in the ordinary course of business.

"Clearing Membership Agreement"

means the agreement so designated under which, *inter alia*, the Clearing House agrees to make available clearing services in respect of Contracts together with any extension letter or other agreement; in these Regulations and the Procedures the expressions "**Clearing Member Agreement**", "**Member Agreement**" and "**Membership Agreement**" shall have the same meaning as "**Clearing Membership Agreement**"; and in the Default Rules "**Clearing Membership Agreement**" includes the FCM Clearing Membership Agreement and the FCM Default Fund Agreement

"ClearLink API"

means a messaging standard used by market participants to interact with the Clearing House's clearing services

"Client Account"

means any Individual Segregated Account and any Omnibus Segregated Account

"Client Buffer"

means an amount of Collateral (taking the form of cash in a currency acceptable to the Clearing House) held in a Client Buffer Account which is intended to be used to provide a pool of available Collateral to support the registration of, or to meet any other intraday margin requirements in connection with, SwapClear Contracts in Client Accounts opened in connection with SwapClear Client Clearing Business.

"Client Buffer Account"

means a sub-account of a SwapClear Clearing Member's Proprietary Account opened for the purpose of recording Client Buffer.

"Client Clearing Business"

means each of RepoClear Client Clearing Business, SwapClear Client Clearing Business, EquityClear Client Clearing Business, LCH EnClear Client Clearing Business, LSE Derivatives Markets Client Clearing Business, NODAL Client Clearing Business, ForexClear Client Clearing Business and NLX Client Clearing Business

House from time to time

"Member Compression Cycle"	means a Multilateral Compression Cycle requested by two or more SwapClear Clearing Members and agreed to by the Clearing House in relation to eligible SwapClear Contracts held by those requesting SwapClear Clearing Members. For the avoidance of doubt, a Member Compression Cycle will not involve any ACSP
"MER"	has the meaning assigned to it in Section <u>1.3.3 (Trade Registration Facilitation: SwapClear Tolerance, Client Buffer and MER (Minimum Excess Requirement)) of Procedure 2C (SwapClear Clearing Service) of the Clearing House's 2013-2014 Procedures</u>
"Minimum ForexClear Contribution"	means USD 5,000,000
"Minimum Non-Tolerance SwapClear Contribution"	means £10,000,000 (which, for the avoidance of doubt, excludes the £3,000,000 minimum amount payable by an SCM in respect of the SwapClear Tolerance Contribution Amount);
"Minimum RepoClear Contribution"	means EUR 2,500,000
"Minimum RepoClear Contribution Member"	means an RCM in respect of which the Preliminary RepoClear Contribution calculated under Rule R2 of the RepoClear Default Fund Supplement, is equal to or less than the Minimum RepoClear Contribution for the time being
"Minimum SwapClear Contribution Member"	means an SCM in respect of which the SwapClear Non-Tolerance Contribution Amount calculated under paragraph (h) of Rule S2 of the SwapClear Default Fund Supplement is equal to or less than the Minimum Non-Tolerance SwapClear Contribution for the time being
"Multilateral Compression"	means the exercise in which some or all of the SwapClear Contracts submitted by two or more SwapClear Clearing Members for inclusion in a Multilateral Compression Cycle are wholly terminated and, where relevant, replaced with other SwapClear Contracts whose combined notional value is less than the combined notional value of the terminated SwapClear Contracts in that Multilateral Compression Cycle
"Multilateral Compression Cycle"	means the process of Multilateral Compression in accordance with a Compression Proposal, whether by way of an ACSP Compression Cycle or a Member Compression

- (a) application for admission to the Register of SwapClear Dealers and regulation of SwapClear Dealers admitted to the Register;
- (b) application for admission to the Register of RepoClear Dealers and regulation of RepoClear Dealers;
- (c) application for admission to the Register of ForexClear Dealers,

and shall also include FCM Procedures where the term "Procedures" is used in the Default Rules. For the avoidance of doubt, a reference to "Procedures" is not intended to refer to procedures provided for or required by any regulation, rule, official directive, request or guideline (whether or not having the force of law) of any governmental, intergovernmental or supranational body, agency, department or of any regulatory, self-regulatory or other authority or organisation

"Product"	has the meaning assigned to it in the FCM Regulations
"Product Specific Contract Terms and Eligibility Criteria Manual"	means the Product Specific Contract Terms and Eligibility Criteria Manual as published on the Clearing House's website from time to time
"prompt date"	has, in respect of an exchange contract, the meaning ascribed to it in the Exchange Rules governing such contract
"Proprietary Account"	means an account opened within the Clearing House by a Clearing Member in respect of such Clearing Member's House Clearing Business <u>and/or for the purpose of holding Client Buffer</u>
"Protest"	has the meaning given to it in Exchange Rules
"Rate X" and Rate "Y"	means, in relation to a SwapClear Transaction or a SwapClear Contract, the outstanding payment obligations of each party to the transaction, such that Rate X comprises the outstanding payment obligations of one party to the other and Rate Y comprises the outstanding payment obligations of the other party to the first party
"Receiving Clearing Member"	means a SwapClear Clearing Member or an FCM Clearing Member nominated by one or more SwapClear Clearing Client(s) to receive the transfer of Relevant SwapClear Contracts and, where applicable, the relevant Associated Collateral Balance(s) held in respect of such SwapClear Clearing Client(s) from a Carrying Clearing Member

	Default Losses owed by such Defaulter by any insurer or provider of analogous services under any policy of insurance or analogous instrument written in favour of the Clearing House
"SwapClear Regulations"	means those Regulations which apply to SwapClear Contracts as specified in Regulation 54
"SwapClear Segregated Fund Amount"	means the amount as determined in accordance with Rule S2(b) of the SwapClear Default Fund Supplement
"SwapClear Service"	the service provided by the Clearing House under the SwapClear Regulations
"SwapClear Tolerance"	has the meaning assigned to it in Section <u>1.3.3 (Trade Registration Facilitation: SwapClear Tolerance, Client Buffer and MER (Minimum Excess Requirement)) of Procedure 2C (SwapClear Clearing Service) 2C.3.2</u> of the <u>Clearing House's</u> Procedures
"SwapClear Tolerance Utilisation"	means, in respect of each SCM, the value of the SwapClear Tolerance utilised by that SCM at any particular time, as determined by the Clearing House in its sole discretion
"SwapClear Transaction"	means any transaction the details of which are presented to the Clearing House via an Approved Trade Source System for the purpose of having such transaction registered at the Clearing House as two SwapClear Contracts or one SwapClear Contract and one FCM SwapClear Contract (as the case may be), regardless of whether such transaction (a) is an existing swap transaction, (b) was entered into in anticipation of clearing, or (c) is contingent on clearing
"SwapClear Unfunded Contribution"	has the meaning assigned to it in Rule S8 of the SwapClear Default Fund Supplement
"SwapClear Unfunded Contribution Notice"	has the meaning assigned to it in Rule S8 of the SwapClear Default Fund Supplement
"SwapClear Voluntary Payment"	has the meaning assigned to it in Rule S10 of the SwapClear Default Fund Supplement
"SwapClear Voluntary Payment Notice"	has the meaning assigned to it in Rule S10 of the SwapClear Default Fund Supplement
"SWORD"	means the system used by the Clearing House for, <i>inter alia</i> , facilitating the issue, recording and electronic transfer of London Metal Exchange warrants
"tender"	means a notice given by or on behalf of a seller (or buyer where Exchange Rules so require) pursuant to Exchange Rules, these Regulations and the Procedures, of an

CHAPTER III – ACCOUNTS AND CLIENT CLEARING

REGULATION 10 ACCOUNTS

- (a) Accounts (including, where requested, Client Accounts) shall be opened between each Member and the Clearing House in accordance with the Procedures. The Clearing House shall offer segregated accounts (i) by maintaining separate records enabling it to distinguish in accounts the positions and assets held for the account of one Clearing Member from the positions and assets held for the account of any other Clearing Member; (ii) by allowing Clearing Members to provide Client Clearing Services to Clearing Clients on an Omnibus Segregated Account basis, by offering to keep separate records enabling each Clearing Member to distinguish in accounts with the Clearing House its own proprietary positions and assets from those held for the account of its Clearing Clients; (iii) by allowing Clearing Members to provide Client Clearing Services to Clearing Clients on an Individual Segregated Account basis, by offering to keep separate records enabling each Clearing Member to distinguish in accounts with the Clearing House positions and assets (including, for the avoidance of doubt, Client Excess) for the account of an individual Clearing Client from those held for the accounts of other Clearing Clients and those held by the Clearing Member; and (iv) by allowing Clearing Members to provide Client Clearing Services to Indirect Clearing Clients, by maintaining separate records and accounts enabling each Individual Segregated Account Clearing Client acting on behalf of Indirect Clearing Clients to distinguish in accounts held with the Clearing House the assets and positions of the Individual Segregated Account Clearing Client from those held for the accounts of the relevant Indirect Clearing Clients. Regulation 11(g) below provides information in respect of the different types of Client Accounts. For the avoidance of doubt, a Member shall be responsible for all obligations owed to the Clearing House in respect of every account opened in respect of such Member.
- (b) This paragraph applies to a Member's Proprietary Accounts. In the event that more than one Proprietary Account is opened in respect of a Member, the Clearing House shall have the right to combine or consolidate the balances on any or all of the Member's Proprietary Accounts, and to set off any amount or amounts standing from time to time to the credit of any one or more of such accounts in or towards payment or satisfaction of all or any of the Member's liabilities to the Clearing House on any one or more of such accounts. Further detail in respect of the composition and operation of Proprietary Accounts is set out in the Procedures Section 3 (*Financial Transactions*), paragraph 1.1 (*Accounts and Ledgers*).
- (c) This paragraph applies to a Member's Client Accounts. Save in the case of a Cross-ISA Client Excess Deduction, the Clearing House shall not combine or consolidate the balances on or positions recorded in a Member's Client Accounts or set off any amount or amounts standing to the credit of any such Client Account in or towards payment or satisfaction of the Member's liabilities to the Clearing House on any other such Client Account or on any Proprietary Account. Further detail in respect of the composition and operation of Client Accounts is set out in the Procedures Section 3 (*Financial Transactions*), paragraph 1.1 (*Accounts and Ledgers*).
- (d) Amounts standing to the credit of a Member's Proprietary Accounts may be applied by the Clearing House towards the payment of any sum whatsoever due by the Member to the Clearing House whether or not arising under these Regulations, save

that, subject to Rule 8(d) of the Default Rules, no amounts standing to the credit of such accounts (other than House Excess and, to the extent not already included in the relevant Clearing Member Current Collateral Balance, Client Buffer) shall be applied in or towards payment or satisfaction of all or any of the Member's liabilities to the Clearing House on any one or more of the Member's Client Accounts. Amounts standing to the credit of a Member's account relating to Contributions made under the Default Rules may be applied as provided for in the Default Rules.

- (e) Any rights of set-off, combination of accounts or appropriation which the Clearing House may have under these Regulations or otherwise shall apply whether or not accounts are denominated in the same currency.
- (f) Interest calculated on a basis determined from time to time by the Clearing House in accordance with the Procedures may at the Clearing House's discretion (but subject to the provisions of the Default Rules and to Regulation 66(d)) be paid, or, in the case of negative interest rates, be charged, on amounts standing to the credit of any of the Member's Proprietary Accounts and/or Client Accounts.
- (g) Debit balances due to the Clearing House on any account opened in respect of a Member are payable by such Member on demand and interest may at the Clearing House's discretion be charged on debit balances remaining unpaid (whether or not demand for payment is made) on a basis and at a rate determined from time to time by the Clearing House in accordance with the Procedures.
- (h) Subject to the provisions of the Default Rules, the Clearing House may at its absolute discretion alter the basis of calculating interest rates and such alteration shall be effective in respect of all current and future business on the date notified to Exchanges and to Members in accordance with the Procedures.
- (i) If a Member specifies a Termination Date under Regulation 45, the Member shall be entitled to set off any or all amounts (whether present or future, liquidated or unliquidated, actual or contingent; but excluding any claims in respect of the outstanding balance of a Clearing Member's Contribution under Default Rule 16(a)(i)) due as between the Clearing House and the Member, **provided, however, that** a Termination Amount or other sum payable in respect of an amount recorded in or referable to a kind of account may not be combined or set-off against any other amount unless such other amount is recorded in or referable to the same kind of account. For the purposes of this Regulation 10(i), each Client Account of the Member shall constitute a separate "kind of account" but the Proprietary Accounts of the Member shall together constitute a single "kind of account".
- (j) Where a payment has been made to the Clearing House by a Member through the PPS, that payment will only be credited to the account of the Member with the Clearing House if it (i) is paid into an account of the Clearing House with an institution which is solvent, (ii) that institution has performed its concentration function (being the transfer of net funds from the institution to a central account in the name of the Clearing House) and (iii) the institution has made the relevant payments to other Members on the date when the payment was due to be received by the Clearing House.

- (iv) the term "**Individual Segregated Account Clearing Client**" shall be construed to mean an Individual Segregated Account Clearing Client providing indirect clearing services in respect of a Service on behalf of its Indirect Clearing Clients; the term "**Individual Segregated Account**" shall be construed to mean such an account comprising a sub-account in the form of an Indirect Omnibus Segregated Account opened by a Clearing Member in respect of such an Individual Segregated Account Clearing Client; and the term "**Individual Segregated Account Balance**" shall be construed accordingly.
- (k) The fees and charges applied by the Clearing House to Clearing Members in respect of the provision, maintenance and administration of Individual Segregated Accounts and each type of Omnibus Segregated Account shall be as set out in the Clearing House's Account Information Documents.
- (l) The Total Required Margin Amount relating to each Client Account of a Clearing Member will be calculated by the Clearing House and the obligation to provide Collateral in respect of such margin obligations will be discharged by:
- (i) if and to the extent that there is Collateral available in the relevant Client Account, deduction by the Clearing House of amounts from such Collateral; ~~and~~
 - (ii) if the relevant account is a Client Account opened in connection with SwapClear Client Clearing Business and there is insufficient Collateral available in that Client Account, allocation by the Clearing House of Client Buffer (to the extent available);
 - ~~(iii)~~ where applicable, if the relevant account is a Client Account opened in connection with SwapClear Client Clearing Business and there is insufficient Client Buffer available in relation to that Client Account, the Clearing House providing temporary tolerance in the form of SwapClear Tolerance; and
 - ~~(ii)~~(iv) otherwise, transfer by the Clearing Member to the Clearing House of Collateral with a value which is at least sufficient to discharge the relevant requirement.
- (m) Where a Clearing Member transfers Collateral to the Clearing House for the credit of a Client Account the Clearing House will record the Collateral in the relevant Client Account (as instructed by the Clearing Member or any agent or representative acting on behalf of such Clearing Member) **provided that** the Clearing Member has informed the Clearing House of the Client Account to which such Collateral is to be credited.
- (n) The Clearing House shall be entitled to rely on information received from a Clearing Member or any agent or representative acting on behalf of such Clearing Member in relation to the clearing business undertaken by it (including such information regarding the proper segregation of positions and assets in such Clearing Member's Accounts). No Clearing Member shall transfer to the Clearing House any monies or securities other than amounts provided for the purposes of, or in connection with, the provision of clearing services by the Clearing House.

- (o) Without prejudice to paragraph (n) above, a Clearing Member shall, as soon as reasonably practicable following a request from the Clearing House, provide the Clearing House with any information which the Clearing House may reasonably require in relation to each Relevant Client Clearing Business of that Clearing Member.
- (p) In addition to and without prejudice to any other provision in the Rulebook, in circumstances where an investment manager or similar third party agent acts on behalf of a client on behalf of whom a Clearing Member is providing Client Clearing Services, the Clearing House shall be entitled to treat instructions received from the investment manager or similar third party as if they were instructions received from the relevant underlying client.
- (q) Where any formalities or registration requirements apply in respect of the Security Deed (and any other document which the Clearing House may from time to time determine), a Clearing Member is required to comply with such obligations or to procure by agreement that such requirements are to be complied with. The Clearing House agrees to exercise its default powers in a manner consistent with the provisions of the Security Deed and related documentation, including by accepting instructions from the relevant Clearing Clients of a Clearing Member following the occurrence of a Default in respect of such Clearing Member.
- (r) Any reference in a deed of assignment between a SwapClear Clearing Member and the Clearing House to the "**Default Management Process Agreement Amendment Agreement**" or to the "**SwapClear Default Management Process Agreement**" shall be construed as a reference to the Client Clearing Annex.
- (s) A Clearing Member (other than an FCM Clearing Member) may choose to make Client Buffer available in order to support (as further described in Procedure 2C) the registration of, or to meet any other intraday margin requirements in connection with, SwapClear Contracts in Client Accounts opened in connection with its SwapClear Client Clearing Business.
- (t) By requesting the opening of a Client Buffer Account, the Clearing Member represents and warrants to the Clearing House that its participation in the Client Buffer arrangements will not give rise to a breach of any applicable law, regulation or contract.



Appendix II
Procedures Section 2C (SwapClear)



LCH.CLEARNET LIMITED

PROCEDURES SECTION 2C

SWAPCLEAR CLEARING SERVICE

1.3.2 Clearing House Notification

In the case of a SwapClear Clearing Member which has been nominated to register a SwapClear Transaction on behalf of a third party Executing Party other than a SwapClear Dealer, the Clearing House will (only where such SwapClear Transaction is not a US Trading Venue Transaction) provide notification to such SwapClear Clearing Member of the relevant SwapClear Transaction and that it has been so nominated, via member reports, the ClearLink API or otherwise (the "**Notification**"). Where a SwapClear Clearing Member is nominated to clear both SwapClear Contracts arising from the registration of such a SwapClear Transaction (whether for itself or a third party Executing Party) in the capacities described in this paragraph, such SwapClear Clearing Member will receive two separate Notifications from the Clearing House in relation to such SwapClear Transaction. In all other cases, no Notification will be provided to any SwapClear Clearing Member.

In respect of a SwapClear Transaction that is not a US Trading Venue Transaction, following receipt of a Notification, a SwapClear Clearing Member may choose to grant or refuse consent to register the SwapClear Transaction. It is a condition for registration of such a SwapClear Transaction that a SwapClear Clearing Member grants a separate consent (each a "**Necessary Consent**") in respect of each Notification received by it in relation to the registration of such SwapClear Transaction. The Clearing House has an automated system which it operates on each business day (currently at or around 8 pm (London time)) for the purposes of rejecting SwapClear Transactions which have been presented for clearing but in respect of which any Necessary Consent has not been notified to the Clearing House prior to the LCH Cut-off Time. The "LCH Cut-off Time" in respect of a SwapClear Transaction will be the time on the business day following the day when the relevant SwapClear Transaction was presented for clearing at which the reject system is operated by the Clearing House and the relevant SwapClear Transaction is itself rejected by such system. If a SwapClear Clearing Member has not notified the Clearing House of a Necessary Consent by the LCH Cut-off Time, it will be deemed to have rejected the relevant SwapClear Transaction. Any Necessary Consent of a SwapClear Transaction notified by a SwapClear Clearing Member to the Clearing House prior to the LCH Cut-off Time is irrevocable. Any Necessary Consent notified by a SwapClear Clearing Member to the Clearing House after the LCH Cut-off Time shall be invalid.

In circumstances where the registration of a SwapClear Transaction is conditional upon one or more Necessary Consent(s) being notified by the applicable SwapClear Clearing Member(s), the relevant SwapClear Transaction shall be deemed to have been "submitted" to the Clearing House by each such SwapClear Clearing Member at the time when it notifies the Clearing House of its Necessary Consent. In all other circumstances, a SwapClear Transaction shall be "submitted" to the Clearing House by the applicable SwapClear Clearing Member upon being presented to the Clearing House for clearing by or on behalf of such SwapClear Clearing Member (or its SCM Branch) or by or on behalf of a SwapClear Dealer (acting in such

capacity with respect to the relevant SwapClear Transaction) approved to clear SwapClear Transactions through the relevant SwapClear Clearing Member.

In accordance with Section 1.3.5 of these Procedures, it is a precondition for the registration of a SwapClear Contract that the applicable SwapClear Clearing Member has complied with all requirements to provide sufficient Collateral (taking into account MER, Client Buffer and/or SwapClear Tolerance, if any) to the Clearing House as of the time of "submission" or "deemed submission" of the SwapClear Transaction to which the SwapClear Contract relates, except that such Collateral shall be required to be provided prior to registration as a condition thereto only if such SwapClear Transaction is a Block IRS Trade. For the avoidance of doubt, in respect of the registration of a SwapClear Transaction that is a Block IRS Trade, both SwapClear Clearing Members or the relevant SwapClear Clearing Member and FCM Clearing Member must have complied with all requirements to provide sufficient Collateral (taking into account MER, Client Buffer and/or SwapClear Tolerance, if any) at the time when both SwapClear Contracts, or the SwapClear Contract and the FCM SwapClear Contract (as applicable), relating to the relevant SwapClear Transaction have been submitted or deemed to be submitted (as applicable).

1.3.3 *Trade Registration Facilitation: SwapClear Tolerance and MER, Client Buffer (Minimum Excess Requirement)*

In order to facilitate the registration of SwapClear Contracts by SwapClear Clearing Members, the Clearing House may:

- (a) require the transfer to the Clearing House of additional Collateral from those SwapClear Clearing Members participating in the MER Arrangements (as defined below) at the relevant time and may provide SwapClear Tolerance on a daily basis, as further described below;
- (b) where sufficient Collateral (including, but not limited to, any MER) is not available in relation to a Client Account, allocate Client Buffer (as further described below); and/ or
- (c) where sufficient Collateral (including, but not limited to, any MER and/or Client Buffer) is not available, provide SwapClear Tolerance on a daily basis (as further described below).

The Clearing House will set MER requirements (where applicable) and SwapClear Tolerance Limits (as defined below) based on a number of factors, including a SwapClear Clearing Member's credit rating, risk profile, an analysis of the incremental risk registered by a SwapClear Clearing Member during a historic look-back period and, in the case of the overall value of the SwapClear Tolerance which may be made available to a SwapClear Clearing Member, whether the SwapClear Clearing Member is a participant in the MER Arrangements at the relevant time. However, the Clearing House sets MER requirements and SwapClear Tolerance Limits in its sole discretion, and may modify its methodologies at any time or may vary them across different SwapClear Clearing Members.

SwapClear Tolerance

Client Buffer can also be used to cover the Total Required Margin Amount in relation to existing SwapClear Contracts registered in connection with SwapClear Client Clearing Business.

Client Buffer

If a SwapClear Clearing Member has not transferred sufficient Collateral (taking into account any delivered with respect to MER) to (i) enable the registration of a SwapClear Contract in a Client Account; and/or (ii) cover the Total Required Margin Amount on a Client Account in relation to existing SwapClear Contracts, then the Clearing House will, without further reference to the SwapClear Clearing Member, to the extent required, transfer any available Client Buffer from the SwapClear Clearing Member's Client Buffer Account to the relevant Client Account. However, prior to the Default of the SwapClear Clearing Member or the occurrence of a Termination Date specified by the relevant SwapClear Clearing Member under Regulation 45, amounts standing to the credit of the Client Buffer Account are not available to support House Clearing Business and can only be used to support SwapClear Client Clearing Business.

Where Client Buffer has been used to enable the registration of, or to meet any other intraday margin requirements in connection with, a SwapClear Contract in a Client Account, the relevant Collateral shall be recorded in the collateral sub-account associated with the relevant Client Account and shall form part of the Clearing Member Current Collateral Balance in respect of the relevant Client Account.

At the point at which the Clearing House determines that any Collateral transferred and recorded to a Client Account from the Client Buffer Account is no longer required (whether that is intra-day or at the end of day) the relevant Collateral shall be returned and re-recorded by the Clearing House to the Client Buffer Account and shall, from that point onwards:

- (a) cease to form part of the Clearing Member Current Collateral Balance in respect of the relevant Client Account; and
- (b) be available to enable the registration of, or to meet any other intraday margin requirements in connection with, other SwapClear Contracts entered into in connection with SwapClear Client Clearing Business.

As part of the end of day margin run, the Clearing House will call the SwapClear Clearing Member for Collateral to cover the liabilities which are, at that point, being covered by Collateral transferred from the Client Buffer Account to a Client Account. Where the SwapClear Clearing Member fails to provide such additional Collateral, the Collateral previously transferred from the Client Buffer Account to the Client Account will continue to be recorded in the relevant Client Account and the Clearing House will not permit it to be transferred back to the Client Buffer Account in the manner envisaged above. In such circumstances, the SwapClear Clearing Member would be required to

transfer the relevant Collateral out of and back into the Clearing House should it wish to return it to the Client Buffer Account (assuming such an arrangement would be consistent with the SwapClear Clearing Member's agreement with its client and that the Clearing House has not exercised any of its rights under the Default Rules following the Clearing Member's failure to meet the call for such additional Collateral).

For the avoidance of doubt, where a SwapClear Clearing Member has put Client Buffer arrangements in place, the Clearing House will transfer any available Client Buffer to the relevant Client Account before providing SwapClear Tolerance to that Client Account. Any additional Collateral transferred by a SwapClear Clearing Member to the Clearing House in respect of the relevant Client Account will be used to reduce the amount of SwapClear Tolerance utilised in respect of that Client Account to zero before any Collateral previously transferred from the Client Buffer Account is released and re-recorded to the Client Buffer Account.

Any Collateral released and re-recorded to the Client Buffer Account will immediately be used to replace and reduce the amount (if any) of SwapClear Tolerance utilised in respect of any other Client Account opened by the same SwapClear Clearing Member.

Where more than one relevant Client Account utilises SwapClear Tolerance at the time the relevant Collateral is re-recorded to the Client Buffer Account, the newly available Client Buffer shall be allocated to those Client Accounts pro rata to the sum of the Collateral transferred from the Client Buffer Account and currently recorded to the relevant Client Account (if any) and the amount of SwapClear Tolerance utilised by the relevant Client Account (if any) for each such Client Account at that time.

Conversely, any additional Collateral allocated to the Client Buffer Account by the SwapClear Clearing Member will remain in the Client Buffer Account until it is needed to enable the registration of, or to meet other intraday margin requirements in connection with, other SwapClear Contracts entered into in connection with SwapClear Client Clearing Business, irrespective of whether one or more Client Accounts may be utilising SwapClear Tolerance at the time such additional Collateral is allocated to the Client Buffer Account.

SwapClear Tolerance

If a SwapClear Clearing Member has not transferred sufficient Collateral (taking into account any delivered with respect to MER and, in the case of a Client Account, any Client Buffer available in respect of that Client Account) to the Clearing House to the Clearing House to enable the registration of a SwapClear Contract, then the Clearing House may provide such SwapClear Clearing Member with temporary "tolerance" in the form of initial margin forbearance ("SwapClear Tolerance") to enable such registration. A SwapClear Clearing Member may utilise SwapClear Tolerance in between margin runs on a one-to-one basis to the value of the Collateral that would have been required to cover that SwapClear Clearing Member's initial margin requirements for newly registered SwapClear Contracts registered in between

margin runs. For the avoidance of doubt, SwapClear Tolerance is provided in the form of temporary initial margin forbearance and a SwapClear Clearing Member's utilisation of SwapClear Tolerance does not give rise to any payment or transfer of Collateral by the Clearing House or result in any use of default fund resources (except following a Default).

The Clearing House will determine, in its sole discretion, the maximum value of the SwapClear Tolerance (which may be zero) (the "SwapClear Tolerance Limit") which it will make available to a SwapClear Clearing Member at any particular time. SwapClear Tolerance is made available by the Clearing House to a SwapClear Clearing Member at the Clearing House's sole discretion. The Clearing House may adjust the value of a SwapClear Clearing Member's SwapClear Tolerance Limit, and/or require a SwapClear Clearing Member to transfer Collateral to the Clearing House Collateral in respect of any utilised SwapClear Tolerance, at any time and without prior notice to the relevant SwapClear Clearing Member. The Clearing House will provide each SwapClear Clearing Member with information regarding its SwapClear Tolerance Limit and will, as promptly as reasonably practicable, notify it following any adjustment to the amount of its SwapClear Tolerance Limit. Subject to the above, a SwapClear Clearing Member will typically be required to transfer Collateral to the Clearing House in respect of any SwapClear Tolerance utilised by it in the margin run immediately following the time of the relevant registration of a SwapClear Contract where SwapClear Tolerance was utilised.

Any failure of a SwapClear Clearing Member to satisfy a call for Collateral relating to SwapClear Tolerance may give rise to a Default by such SwapClear Clearing Member, just as any failure by a SwapClear Clearing Member to satisfy any other call for Collateral may give rise to a Default.

Minimum Excess Requirement ("MER")

The Clearing House has put in place arrangements (the "MER Arrangements") (which will be optional for SwapClear Clearing Members) under which it will be able to call from each relevant SwapClear Clearing Member an amount of Collateral (the "MER Cover") in respect of that SwapClear Clearing Member's potential margin requirements (with respect to the registration of SwapClear Contracts) for the following day.

The Clearing House will calculate MER for each SwapClear Clearing Member using the same methodology and will publish such methodology to SwapClear Clearing Members. The Clearing House will provide 30 days' notice before implementing any changes to the methodology used for calculating MER.

SwapClear Clearing Members are not required to participate in the MER Arrangements unless and until they elect to do so. In the event that a SwapClear Clearing Member wishes to change its participation status (the "Participation Status") from opting in to the MER Arrangements to opting out or vice versa it should contact the Clearing House to request applicable documentation (swapclear.clientservices@lchclearnet.com). Changes in Participation Status are processed at the end of each month. All relevant

documentation must be completed and returned to the Clearing House no later than 5 Business Days prior to the end of the month preceding the month to which the change in Participation Status applies. A SwapClear Clearing Member's Participation Status will remain unchanged until the Business Day following the day that the Clearing House confirms via email that the change in Participation Status has been processed. The Clearing House shall be entitled to treat the Participation Status of a SwapClear Clearing Member as continuing unchanged from month to month until such time as appropriate notice is received from such SwapClear Clearing Member and processed by the Clearing House in accordance with the provisions of this paragraph.

Any MER Cover delivered by a SwapClear Clearing Member will form part of the Clearing Member Current Collateral Balance of that SwapClear Clearing Member. SwapClear Clearing Members participating in the MER Arrangements will be called for MER Cover separately in respect of their Proprietary Account related to SwapClear Clearing House Business and/or their Client Account related to SwapClear Client Clearing Business. However, such MER Cover will not be regarded as Required Collateral, or form part of any Account Balance or be deemed to form part of the Clearing Member Current Collateral Balance in respect of any SwapClear Clearing Client, of any Individual Segregated Account or Omnibus Net Segregated Account unless such MER Cover has been attributed to any such account by the Clearing House in accordance with this section.

For the avoidance of doubt, failure to deliver MER Cover when required by the Clearing House will constitute a breach of these Procedures and the Regulations.

In relation to the registration of a SwapClear Contract on behalf of a SwapClear Clearing Client, the Clearing House shall determine if there is sufficient Collateral to enable such registration. If the SwapClear Clearing Member has not transferred sufficient Collateral to the Clearing Member to enable the registration of such SwapClear Contract, the Clearing House will determine whether there is any unutilised MER Cover related to SwapClear Client Clearing Business and, if so, will attribute the relevant part of such MER Cover to the relevant Individual Segregated Account or Omnibus Net Segregated Account. In this context, the attribution of the MER Cover to the relevant Individual Segregated Account or Omnibus Net Segregated Account means that it will be recorded as Collateral held in relation to such account and shall be treated as part of the Clearing Member Current Collateral Balance of such account.

At each end of day margin run, the Clearing House will recalculate and call, on an account by account basis, required Collateral in respect of the MER requirements of each SwapClear Clearing Member currently participating in the MER Arrangements.

In accordance with Section 1.3.5 of these Procedures, it is a condition for registration of a SwapClear Contract that the applicable SwapClear Clearing Member transfers sufficient Collateral to the Clearing House in respect of such SwapClear Contract prior to registration.

1.3.5 Registration of New Trades

The following section does not apply to Backloaded Trades, which are dealt with in section 1.3.6 below.

Prior to it registering a SwapClear Contract resulting from a SwapClear Transaction that is a Block IRS Trade, the Clearing House will require the SwapClear Clearing Member in whose name such SwapClear Contract is to be registered to transfer to the Clearing House adequate Collateral in respect of initial and variation margin requirements relating to such contract as a precondition to registration (taking into account any MER, Client Buffer and/or SwapClear Tolerance, if any). In accordance with Regulation 55(d)(iv) (*Registration of SwapClear Contracts*), a SwapClear Clearing Member becomes obligated to transfer such Collateral (taking into account any MER, Client Buffer and/or SwapClear Tolerance, if any) to the Clearing House at the time when both SwapClear Contracts, or the SwapClear Contract and the FCM SwapClear Contract (as applicable), relating to the relevant SwapClear Transaction that is a Block IRS Trade have been submitted or deemed to be submitted (as applicable) by the relevant SwapClear Clearing Member(s) or the relevant SwapClear Clearing Member and FCM Clearing Member (as the case may be) and such SwapClear Clearing Member(s) or such SwapClear Clearing Member and such FCM Clearing Member shall transfer such Collateral to the Clearing House prior to registration upon request of the Clearing House. In respect of a SwapClear Contract resulting from a SwapClear Transaction that is not a Block IRS Trade, the SwapClear Clearing Member in whose name such SwapClear Contract is registered shall transfer to the Clearing House sufficient Collateral in respect of such SwapClear Contract at such time after the registration of such SwapClear Contract as the Clearing House shall require.

Notwithstanding the foregoing, (i) if the Clearing House registers a Block IRS Trade where one or both of the relevant SwapClear Clearing Members has not provided sufficient Collateral prior to registration, the SwapClear Clearing Members shall be bound by the terms of the SwapClear Contract relating thereto arising under Regulation 47 (and in particular by paragraphs (c), (h) and (i) thereof) and any other applicable provision of the Rulebook; and (ii) if the Clearing House rejects a SwapClear Transaction that is not a Block IRS Trade for reasons of insufficient Collateral, the Clearing House shall use its reasonable endeavours to assist the relevant SwapClear Clearing Member in re-registering the SwapClear Transaction on the correct basis but the Clearing House shall not be liable to any SwapClear Clearing Member or anyone else with regard to the registration (or lack of registration or re-registration) of any such SwapClear Transaction.

Upon a SwapClear Transaction being submitted to the Clearing House for registration and the conditions to registration specified in Regulation 55 (*Registration of SwapClear Contracts*) having been satisfied in respect of the related SwapClear Contract(s), the SwapClear clearing system will respond, after processing, with a message confirming the registration. The registration notification message will be sent using the SwapClear Clearing Member reporting system (including by way of the originating Approved Trade Source

System). The definitive report of a registered SwapClear Contract will be shown within the SwapClear Clearing Member reporting system (see Section 1.1.3) on the SwapClear Clearing Member reporting account.

1.3.6 *Backloading of Existing Trades*

A SwapClear Transaction that has a Trade Date of greater than ten calendar days prior to the date of submission is considered a backloaded trade by the Clearing House (a "**Backloaded Trade**"). Due to the nature of Backloaded Trades, SwapClear Clearing Members should note that a relatively large amount of Collateral is required to register such trades. The Clearing House provides the facility for SwapClear Clearing Members to load such eligible existing SwapClear Transactions, through an Approved Trade Source System (currently, MarkitWire, Bloomberg and Tradeweb). Where the Clearing House approves additional Approved Trade Source Systems for these purposes, it will notify SwapClear Clearing Members via a member circular. Backloading requires bilateral agreement between the relevant Executing Parties and acceptance by the SwapClear Clearing Member(s) or the SwapClear Clearing Member and the FCM Clearing Member (as the case may be) of the full particulars required by the Clearing House for each such SwapClear Transaction.

At least once every Business Day, the Clearing House will carry out a process (each a "**Backload Registration Cycle**") for the registration of Backloaded Trades which have been presented for clearing or with respect to which the Clearing House has received the one or more Necessary Consents, if any. Following each Backload Registration Cycle, the Clearing House will calculate the increase in Collateral required to register the Backloaded Trade(s) and will notify each relevant SwapClear Clearing Member (the "**Backload Margin Call**"). The Backload Margin Call will be for the entire amount of additional Collateral required in connection with the Backloaded Trade(s), and the Backload Margin Call cannot be satisfied by and will not take into account SwapClear Tolerance (i.e., SwapClear Tolerance is not available for this purpose), or any available MER Cover ~~or~~, **Client Buffer** or any form of excess Collateral (other than that which has been expressly allocated for that purpose, as described in the paragraph below). In connection with a Backload Margin Call, following the time that a SwapClear Clearing Member is required to deliver to the Clearing House the Collateral associated with such Backload Margin Call (the "**Backload Margin Call Deadline**"), the Clearing House will issue such SwapClear Clearing Member a subsequent margin call to deliver Collateral in respect of any increase in SwapClear Tolerance utilisation as of the time of the Backload Margin Call Deadline (if any).

Where an individual SwapClear Clearing Member determines that the Backloaded Trade(s) that it is submitting for registration will lead to an aggregate change (be it either an increase or decrease) in the net present value of its portfolio of SwapClear Contracts in excess of a threshold amount (the "**Individual Backload Value Threshold**") as published by the Clearing House from time to time, it shall notify the Clearing House before the end of the Business Day preceding the relevant Backload Registration Cycle. In the

- (ii) the Individual Backload Value Threshold; and
- (iii) the Aggregate Backload Margin Threshold.

1.3.7 *Notification*

The Clearing House will send to the originating Approved Trade Source System notification of registration or rejection, as the case may be, and the SwapClear Clearing Members will be notified by the Approved Trade Source System or the ClearLink API or otherwise of the registration or rejection of SwapClear Transactions, or contracts purported as such.

1.3.8 *Rejected Trades*

Trades submitted for registration that do not meet the product or other Eligibility Criteria as set out in the Product Specific Contract Terms and Eligibility Criteria Manual and published on the Clearing House's website from time to time (including a trade submitted by or on behalf of a SwapClear Clearing Member that was executed on (i) a US Trading Venue that was not at the time of execution of such trade an Eligible US Trading Venue in respect of such SwapClear Clearing Member or (ii) a trading venue or facility that had not at the time of the execution of such trade been approved by the Clearing House as a US Trading Venue) or which contain invalid or incomplete message data or with respect to which the Clearing House has not received sufficient Collateral (taking into account MER, Client Buffer and/or SwapClear Tolerance, if any) will be rejected, except that such Collateral shall be required to be provided prior to registration as a condition to the registration of such trade only if such trade is a Block IRS Trade. If, at any time, the Clearing House does not register a trade presented for registration it will send to the originating Approved Trade Source System notification of the rejection.

1.4 **Proprietary Accounts and Client Accounts**

1.4.1 *Proprietary Accounts*

A SwapClear Clearing Member may request that the Clearing House opens one or more Proprietary Accounts in respect of its House Clearing Business.

Each Proprietary Account will map to two or more sub-accounts:

- (a) a position account; and
- (b) one or more collateral accounts (including, where relevant, a Client Buffer Account).
- ~~(b) a collateral account.~~

1.4.2 *Client Accounts*

- (a) Types of Client Account

SwapClear Clearing Member reporting functionality also allows SCMs to identify all SwapClear Contracts, registered in their name, and, if submitted by an SD, the submitting SD.

1.6 Collateral Accounts

Clearing Member position accounts have collateral accounts associated with them. These are, *inter alia*, used to record cash balances, and securities ~~documentary~~ **credits**. Information contained within a position-keeping account is consolidated with the associated collateral account, as follows:

1.6.1 Relationship with Position-Keeping Accounts and Collateral Accounts

<u>Position-keeping Account</u>	<u>Collateral Account</u>	
H	Proprietary	H
C	Client	C

Each client "C" position-keeping account and the client "C" collateral account of an SCM may hold any number of segregated sub-accounts. Each Individual Segregated Account of the SCM will map onto one such segregated sub-account in the client "C" position-keeping account and one such segregated sub-account in the client "C" collateral account and each Omnibus Segregated Account will map onto one such segregated sub-account in the client "C" position-keeping account and one such segregated sub-account in the client "C" collateral account.

In the case of Omnibus Gross Segregated Accounts, the relevant segregated sub-accounts of the client "C" collateral account and "C" position-keeping account will be further segregated into sub-accounts for each Omnibus Gross Segregated Clearing Client or, where applicable, a group of Combined Omnibus Gross Segregated Clearing Clients together.

1.6.2 Further accounts

At the Clearing House's discretion, further accounts may be opened from time to time.

1.6.3 Client Excess

A Clearing Member can transfer Client Excess in accordance with Section 1.10 of Procedure 4 (*Margin and Collateral*).

1.6.4 Default Fund (DF) Account

Each SCM's Default Fund Contribution is held on a separate account. The DF account code is "F".



Appendix III
Procedures Section 3 (Financial Transactions)



LCH.CLEARNET LIMITED

PROCEDURES SECTION 3

FINANCIAL TRANSACTIONS

1. FINANCIAL TRANSACTIONS

1.1 Accounts and ledgers

1.1.1 *Proprietary Accounts*

Each Proprietary Account will map to two or more of the following sub-accounts~~two sub-accounts~~:

- (a) a position account; and
- (b) a collateral account opened in relation to a Clearing Member's House Clearing Business (a "House Collateral Account"); and
- ~~(b)~~(c) where relevant, a collateral account opened for the purposes of recording Client Buffer (a Client Buffer Account).

A Clearing Member must identify the Proprietary Account and related collateral sub-account to which Collateral is to be credited. The Clearing House shall credit such Collateral to the relevant collateral sub-account of the relevant Proprietary Account.

1.1.2 *Client Accounts*

A Client Financial Account is comprised of one or more Client Accounts. Each Client Account will map to two or more sub-accounts:

- (a) one or more position account; and
- (b) one or more collateral accounts.

A Clearing Member must identify the Client Account to which Collateral is to be credited. The Clearing House shall credit such Collateral to the collateral account of the relevant Client Account.

1.1.3 *Collateral Account Postings*

Transactions posted to the collateral account include but are not limited to:

- (a) PPS calls and pays;
- (b) option premiums;
- (c) prompt day delivery amounts;
- (d) interest and accommodation charges;
- (e) Clearing House fees, charges and rebates;
- (f) exchange fees, levies and rebates;
- (g) amounts credited or debited in respect of variation margin, price alignment interest, NPV and coupons;



Appendix IV
Procedures Section 4 (Margin and Collateral)



LCH.CLEARNET LIMITED
PROCEDURES SECTION 4
MARGIN AND COLLATERAL

1.2 Documentation

1.2.1 *Form of Charge*

Clearing Members wishing to transfer non-cash Collateral to the Clearing House must complete and maintain a *Form of Charge* document for the relevant type of Collateral, e.g. securities. This document establishes a fixed charge over the Clearing Member's interests pursuant to the custody relationship which arises upon specified non-cash Collateral being transferred into an account with the Clearing House by the Clearing Member. The document is required to be executed in accordance with the instructions which accompany it. The Form of Charge document covers non-cash Collateral that is transferred to the Clearing House via bilateral settlement or via triparty arrangements. For triparty arrangements using US domiciled custodians an equivalent to the Form of Charge is incorporated within the relevant triparty agreement documentation. To operate triparty arrangements with the Clearing House an additional Collateral Services Agreement (or equivalent) must also be executed with the relevant triparty provider.

Charge documentation is available from the Clearing House Risk Department and should be returned on completion to that department. Where a Clearing Member transfers Collateral to the Clearing House to cover both a Proprietary Account and a Client Account it must execute two separate Deeds of Charge.

1.2.2 *Segregation Rules*

Instructions relating to transfers and requests for the return of Collateral must indicate the particular account to which they relate. Any Collateral transferred to the Clearing House will be applied against the Clearing Member's (proprietary or client) margin liabilities as per the relevant documentation.

Collateral transferred to the Clearing House in respect of a Clearing Member's Client Account will not be applied by the Clearing House to his liabilities on a Proprietary Account (see Regulation 10(d) (*Accounts*)) or on another Client Account.

Collateral transferred to the Clearing House in respect of a Clearing Member's Proprietary Account may be applied by the Clearing House towards the payment of any sum whatsoever due by the Clearing Member to the Clearing House, save that, subject to Rule 8(d) of the Default Rules, no Collateral (other than House Excess and, to the extent not already included in the relevant Clearing Member Current Collateral Balance, Client Buffer) charged in respect of a Clearing Member's Proprietary Account shall be applied on or towards payment or satisfaction of any of the Clearing Member's liabilities to the Clearing House on any of the Clearing Member's Client Accounts.

1.2.3 *Clearing Client Collateral*

Where a Clearing Member wishes to transfer a Clearing Client's Collateral to the Clearing House, the Clearing Member must, *inter alia*, ensure that at all times it remains expressly agreed with the Clearing Client that the Clearing