

VIA CFTC Portal

31 March 2021

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

LCH Limited Self Certification: Rule Changes Related To Client Clearing

Dear Mr Kirkpatrick

Pursuant to CFTC regulation §40.6(a), LCH Limited (“LCH”), a derivatives clearing organization registered with the Commodity Futures Trading Commission (the “CFTC”), is submitting for self-certification clarification changes to its rules related to its international client clearing model¹. The changes do not apply to Clearing Members that are Future Commission Merchants (“FCMs”) and, therefore, do not impact the LCH client clearing model that complies with the relevant CFTC rules.

Part I: Explanation and Analysis

LCH proposes to make clarification changes on certain provisions of the LCH Rulebook related to the international client clearing model. The changes ensure alignment of the rules with the operational processes in place in the SwapClear, ForexClear and Listed Interest Rates services and the expectation of Clearing Members of such services.

The key changes are included in the Procedures and the Default Rules of the LCH Rulebook and relate to the transfer (or “porting”) of client accounts to a “Backup Clearing Member” when the Clearing Member of those accounts goes into default (this being a “default event”). In summary, the changes clarify that:

- i) clients are permitted to appoint one or more Backup Clearing Members anytime *before* as well as on the day of a default event;
- ii) LCH will contractually facilitate the porting of clients’ Contracts within a certain period (the “Porting Window”), however porting may also occur outside of this window; and
- iii) successful porting is subject to agreement between the given client(s) and Backup Clearing Member(s).

¹ LCH operate two types of clearing models via its SwapClear and ForexClear services: i) ‘international’ or ‘principal’ model through which Clearing Members can clear non-US domiciled client business; and ii) ‘agency’ model, known as the FCM service, through which Clearing Members can clear US domiciled client business and non-US domiciled client business.

In addition to the above, the rules clarify the conditions for returning any Collateral balance directly to the given client(s), in the event their Contracts are closed-out, rather than ported.

As the intention of the proposed changes is to clarify and simplify the above provisions about the international client clearing model, certain sections have been removed as deemed redundant.

Separately, LCH is making minor amendments to its General Regulations to accurately reflect the business as usual process of netting and aggregation of SwapClear Contracts in the same client account, whether these are STM or CTM Contracts². There were no changes required in the equivalent rules applicable to the ForexClear service.

LCH notified its Clearing Members of the proposed changes and received no adverse comments.

The rule changes will go live on, or after, 15 April 2021.

Part II: Description of Rule Changes

The Procedures of the SwapClear, ForexClear, and Listed Interest Rates services (Sections 2C, 2I, and 2J, respectively) include provisions on client clearing, including in the context of default management. One of the topics addressed therein is about the porting of client accounts (“Relevant Client Account(s)”) to a Backup Clearing Member in a default event. The relevant sections of the Procedures (1.28.4, 1.12.5 and 1.14.2, respectively) have been amended to clarify that a client may, whether pre or post a default event, appoint one or more Backup Clearing Member(s) for the purpose of porting its Contracts in accordance with the LCH Default Rules. In addition, the rules clarify that LCH will disclose the Portfolio of Contracts of the Relevant Client Account to such Backup Clearing Member(s), if permitted to do so in accordance with the LCH rules. The terms “Portfolio” and “Relevant Client Account” are defined in this section.

Some paragraphs in the client clearing part of the Procedures of the respective clearing services have been renumbered. Wording that is redundant or clarified by the amendments has been deleted.

Further, the LCH Default Rules part of the Rulebook prescribe a minimum period within which LCH will contractually seek to port the Relevant Contracts of given client accounts to a Backup Clearing Member; porting, however, may also be permitted beyond such period. This minimum period is called the “Porting Window” and is defined under paragraph 4.1 of Schedule 1 (“Client Clearing Annex”). In addition, paragraphs 6 and 8, and respective sub-paragraphs, of this schedule set out the details of the porting process for the various eligible client accounts and have been slightly amended to note such process is subject to the Backup Clearing Member(s) and the relevant client(s) agreeing to the porting arrangements. The process include LCH giving effect to the instructions received to transfer relevant Contracts and Collateral Balance attributable to the relevant Clearing Client from

² Contracts for which variation margin is treated as transfer of collateral are referred to as “Collateralised-to-Market” or “CTM Contracts”. Contracts for which variation margin is treated as settlement payment are referred to as “Settled-to-Market Contracts” or “STM Contracts”. For STM Contracts, upon payment of amounts due in respect of such variation margin, the outstanding exposure of the relevant Contracts will be discharged. All Contracts associated with US Clearing Members are treated as STM Contracts.

the defaulting Clearing Member (the “defaulter”) to the appointed Backup Clearing Member. Paragraph 5 and sub-paragraphs 6.5 and 8.4 have been removed as deemed to be redundant in light of the details set out in the paragraphs and sub-paragraphs mentioned above.

Paragraph 9, and related sub-paragraphs, of Schedule 1 describe the LCH process for returning the relevant Collateral Balance attributable to given client accounts when porting does not occur and the Contracts of the defaulter’s client(s) are closed out. Such Collateral Balance is referred to in the rules as “Client Clearing Entitlement” and may be returned by LCH to either the defaulter (as set out under 9.1) or directly to the relevant client(s) (as set out under 9.2). In the latter case, certain conditions must be met; LCH having the operational ability to transfer cash and/or financial instruments equal to the amount of the Client Clearing Entitlement directly to the client account(s) has now been added to such conditions. This section has been simplified to ensure the rules correctly reflect the operational processes of the clearing services; as a result 9.2 d) and e) have been removed.

Regulation 57A (“Settlement of SwapClear Contracts and conversion to SwapClear STM Contracts”) of the General Regulations includes a clarification change in paragraph I) to accurately reflect the business as usual process of netting and aggregation of SwapClear Contracts in the same client account, whether these are STM or CTM Contracts. There are equivalent rules for ForexClear, which did not require any amendments³.

Some references in Regulation 57A have been corrected and renumbered, as necessary.

The texts of the changes are attached hereto as:

- i. **Appendix I**, Procedures Section 2C (“SwapClear Clearing Service”)
- ii. **Appendix II**, Procedures Section 2I (“ForexClear Clearing Service”)
- iii. **Appendix III**, Procedures Section 2J (“Listed Interest Rates Clearing Service”)
- iv. **Appendix IV**, Default Rules
- v. **Appendix V**, General Regulations

Part III: Core Principles Compliance

As noted at the beginning of this letter, the changes do not apply to FCMs and, therefore, do not impact the LCH client clearing model that complies with the relevant CFTC rules. Nevertheless, LCH has reviewed the changes against the requirements of the Core Principles and related CFTC Regulations and finds that they will continue to comply with all the requirements and standards therein. In particular, the changes enhance LCH’s overall ability to support the transfer of customer positions as required under §39.15(d).

The changes described in this letter have been notified to the LCH membership and will be codified in the LCH’s publicly available Rulebook. Market participants can therefore make an informed decision about using LCH’s services following this change.

³ General Regulations, Regulation 106A “Settlement-to-Market of ForexClear Contracts”.

Part IV: Public Information

LCH has posted a notice of pending certification with the CFTC and a copy of the submission on LCH's website at: <http://www.lch.com/rules-regulations/proposed-rules-changes>

Part V: Opposing Views

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

Certification

LCH 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.

Yours sincerely

P.P. 

Julian Oliver
Chief Compliance Officer
LCH Limited

Appendix I
Procedures Section 2C
("SwapClear Clearing Service")



LCH LIMITED

PROCEDURES SECTION 2C

SWAPCLEAR CLEARING SERVICE

1.27.3 A double tax treaty, that makes provision for interest, is in force between the UK and the country of residence of the non-UK resident (or, if different, the country of residence of the beneficial counterparty to the contract); or

1.27.4 The Clearing House is considered a "recognised clearing house" as defined in section 285 of FSMA 2000.

Any contract which would otherwise fall within section 696 CTA 2009 must not be submitted to the Clearing House for clearing nor should any SwapClear Clearing Member knowingly permit any such contract to be submitted. Should this occur the SwapClear Clearing Member in whose name the contract is to be or has been registered must promptly notify the Clearing House and, in any event, within 30 days of that Clearing Member becoming aware of the situation. Having investigated the circumstances, the Clearing House has an obligation to notify the HM Revenue & Customs of the event and the Clearing House may, in its absolute discretion suspend any SwapClear Dealer submitting such a contract for registration for the Register of SwapClear Dealers. The Clearing House may also, in its absolute discretion take such action in respect of the SwapClear Clearing Member as it deems fit in accordance with the Regulations. The SwapClear Clearing Member shall indemnify the Clearing House against any Corporation Tax or any other tax levied or imposed upon the Clearing House in respect of any such contract, and any other costs and expenses incurred by the Clearing House in connection therewith.

If in doubt, Clearing Members should consult their professional advisers as to the potential application of sections 696 and 697 CTA 2009 to their transaction.

1.28 Default Management

1.28.1 *Portfolio Splitting*

As part of the Rates Service DMP, the Clearing House may divide an Auction Portfolio into two or more individual Auction Portfolios. In circumstances where such portfolio splitting is adopted, the Clearing House will, in consultation with the Rates Service DMG, seek to create:

- (a) one or more individual sub-portfolios which have comparatively greater levels of risk associated with them, thereby isolating such sub-portfolios from those which are more risk neutral; and
- (b) one or more individual sub-portfolios which are more risk neutral.

1.28.2 *Acceptance of Bids*

In deciding whether to accept a bid, the Clearing House will generally accept the best bid in respect of any individual Auction. However, the Clearing House is entitled to reject a bid in the event that it considers, in its reasonable discretion that accepting the bid may:

- (a) cause the Clearing House to breach Applicable Law by virtue of its being a Recognised Clearing House or a Derivatives Clearing Organization;

~~1.28.4 Backup Clearing Members~~

~~1.28.5 A SwapClear Clearing Client may appoint a Backup Clearing Member for the purposes of the porting of the SwapClear Contracts entered into by a SwapClear Clearing Member on its behalf, in accordance with the Client Clearing Annex.~~

~~1.28.6 Where, following the Default of a SwapClear Clearing Member, the Clearing House is notified of the existence of such a Backup Clearing Member in respect of a SwapClear Clearing Client, the Clearing House is entitled, in accordance with the Client Clearing Annex, to immediately and without notice to any person, send details of the Relevant Contracts and Account Balances to that appointed Backup Clearing Member. The Clearing House shall not require consent from any person in advance of sending these details.~~

~~1.28.4 Note: The appointment by a SwapClear Clearing Client of a Backup Clearing Member and the notification of a Backup Clearing Member to the Clearing House does not mean that SwapClear Contracts will always be transferred to that Backup Clearing Member. Porting of SwapClear Contracts, following a SwapClear Clearing Member's Default is always subject to the Clearing House's receipt of consent from the relevant Backup Clearing Member.~~

A SwapClear Clearing Client may, at any time, appoint one or more Backup Clearing Member(s) in respect of the SwapClear Service, for the purpose of porting SwapClear Contracts entered into by an SCM on its behalf and corresponding Account Balance(s), in accordance with the Client Clearing Annex.

An SCM agrees that the Clearing House is permitted, after the Default of such SCM, to disclose the Portfolio in respect of a Relevant Client Account and SwapClear Clearing Client of such SCM, to each Backup Clearing Member appointed by such SwapClear Clearing Client in respect of the SwapClear Service.

For the purposes of this Section 1.28.4:

(a) “Portfolio” means, in respect of a Relevant Client Account and a SwapClear Clearing Client (i) the Contract(s) recorded to the Relevant Client Account and entered into between the Defaulting SCM and the Clearing House, in respect of such SwapClear Clearing Client, (ii) the Account Balance(s) recorded to the Relevant Client Account and attributable to such SwapClear Clearing Client, and (iii) such other related information as determined by the Clearing House in its sole discretion; and

(b) “Relevant Client Account” means, in respect of a Defaulting SCM and a SwapClear Clearing Client, a Client Account (i) in the SwapClear Service and in the name of such Defaulting SCM, and (ii) attributable to such SwapClear Clearing Client (and, as applicable, one or more other SwapClear Clearing Client(s)).

4.28.7.1.28.5 *SwapClear Contributions*

SwapClear Contributions will be called via PPS on the fourth business day of each month or otherwise pursuant to a determination of a SwapClear Contribution under the Default Rules.

Excess SwapClear Contribution amounts due to SwapClear Clearing Members following a SwapClear Determination Date will (subject to the Default Rules) be repaid to SwapClear Clearing Members' PPS accounts on the fourth business day immediately following such SwapClear Determination Date.

If a Resignation Effective Date has occurred in respect of a Resigning Member and the SwapClear Service pursuant to Rule S(2)(e) of the Rates Service Default Fund Supplement, then the Clearing House will repay the SwapClear Contribution that it holds for such Clearing Member (to the extent it has not been applied under the Default Rules) to the Clearing Member's relevant PPS account on such Resignation Effective Date.

Interest on SwapClear Contributions will be paid to SwapClear Clearing Members' PPS accounts on the fifth business day of each month, in respect of the "**interest accrual period**" occurring immediately prior to such business day. Interest is calculated in respect of each "**interest accrual period**", which commences on (and includes) the fourth business day of each month (each, a "**SwapClear Reset Day**") and ends on (and includes) the calendar day immediately before the next SwapClear Reset Day. Notwithstanding the preceding paragraphs, if the rate of interest payable on SwapClear Contributions is negative, interest shall be payable by SwapClear Clearing Members to the Clearing House.

4.28.8.1.28.6 *Quantifying SwapClear Contributions*

For the purposes of calculating the SwapClear Non-Tolerance Weight of an SCM under Rule S1(f) of the Rates Service Default Fund Supplement – SwapClear, the Uncovered Stress Loss (as defined in Rule S1(f)) of an SCM shall be determined by reference to the SwapClear Contracts entered into (1) on behalf of the relevant SCM and (2) with respect to the SwapClear Clearing Clients and FCM Clients of such SCM.

4.28.9.1.28.7 *Outsourcing*

Pursuant to Section 1 (*Clearing Member and Dealer Status*) of the Procedures, an SCM may appoint a third party to fulfil one or both of the Clearing House's Membership requirements to: (i) participate in a SwapClear "fire drill" run by the Clearing House; and (ii) participate in the Rates Service DMP operated by the Clearing House. Where an SCM chooses to outsource one or both of these functions it must appoint and maintain at least three LCH Approved Outsourcing Agents.

Appendix II
Procedures Section 2I
("ForexClear Clearing Service")



LCH LIMITED

PROCEDURES SECTION 2I

FOREXCLEAR CLEARING SERVICE

reduced rate unless the Clearing House or the FXCCM can no longer deliver such form, document, statement or certification solely as a result of a change in law (including double tax treaty) or interpretation thereof after the date of the ForexClear Contract between the Clearing House and the FXCCM. In the case of the Clearing House, the forms required pursuant to item (ii) above include an Internal Revenue Service Form W-8BEN. Additionally, the Clearing House will take such further actions as necessary to ensure that payments made to it can be made without deduction or withholding for or on account of any Tax.

1.12 ForexClear Client Clearing

1.12.1 *ForexClear Clearing Client Clearing – Ancillary Documentation*

- (a) *Security Deed:* Unless specified otherwise by the Clearing House, a ForexClear Clearing Member must enter into a Security Deed in respect of its Clearing Clients in relation to amounts due to it from the Clearing House pursuant to the Client Clearing Annex. Further information in relation to such Security Deed is prescribed by the Clearing House from time to time and published on the Clearing House's website.
- (b) *Prescribed Language and End-User Notice:* Pursuant to the Clearing House's General Regulations, each ForexClear Clearing Member is required to ensure that it includes certain language in its agreement with its ForexClear Clearing Client (the "**Clearing House Prescribed Language**"). The Clearing House Prescribed Language is shown at Schedule 1 of the Procedure .

ForexClear Clearing Clients' attention is drawn to the End-User Notice which is published on the Clearing House's website:

<http://www.lch.com/about-us/governance/end-user-notice>

1.12.2 *Transactions in Respect of ForexClear Clearing Client Default to FXCCM*

- (a) This Section describes certain transactions that, under certain conditions, can be carried out by an FXCCM in respect of one of its ForexClear Clearing Clients that has defaulted in its obligations to the FXCCM.
- (b) A request or instruction from an FXCCM to the Clearing House to carry out a transaction described in Sections 1.12.3 (*Transfers between Client Accounts and Proprietary Accounts*) or 1.12.4 (*ForexClear Contracts Entered into, or Cancelled, on behalf of Defaulted Clients*) below shall in every case be deemed a representation by the FXCCM to the Clearing House that (i) the affected ForexClear Clearing Client is in default of its obligations to the FXCCM, (ii) the FXCCM has provided and will provide (as applicable) any required notices to the ForexClear Clearing Client of its default and the FXCCM's transactions effected under Sections 1.12.3 (*Transfers between Client Accounts and Proprietary Accounts*) and/or 1.12.4 (*ForexClear Contracts Entered into, or Cancelled, on behalf of Defaulted Clients*) below, and (iii) the FXCCM

- (iv) a copy of a notice served by the FXCCM on the ForexClear Clearing Client alerting that ForexClear Clearing Client of the FXCCM's intention to register the relevant ForexClear Contract(s) is provided to the Clearing House; and
 - (v) on demand from the Clearing House, an indemnity from the FXCCM in a form suitable to the Clearing House is provided to the Clearing House.
- (b) Such a ForexClear Contract submitted for registration in the name of a defaulted ForexClear Clearing Client must reference the applicable ForexClear Clearing Client and Client Account as would ordinarily occur; however, the transaction may be submitted using either the ForexClear Clearing Client's ForexClear Approved Trade Source System identification number or an alternative ForexClear Approved Trade Source System identification number other than that of the ForexClear Clearing Client (e.g., the FXCCM's ForexClear Approved Trade Source System identification numbers), as applicable.

1.12.5 *Backup Clearing Members:*

A ForexClear Clearing Client may, at any time, appoint one or more Backup Clearing Member(s) in respect of the ForexClear Service, for the purpose of porting ForexClear Contracts entered into by a FXCCM on its behalf and corresponding Account Balance(s), in accordance with the Client Clearing Annex.

A FXCCM agrees that the Clearing House is permitted, after the Default of such FXCCM, to disclose the Portfolio in respect of a Relevant Client Account and ForexClear Clearing Client of such FXCCM, to each Backup Clearing Member appointed by such ForexClear Clearing Client in respect of the ForexClear Service.

For the purposes of this Section 1.12.5:

- (a) “Portfolio” means, in respect of a Relevant Client Account and a ForexClear Clearing Client (i) the Contract(s) recorded to the Relevant Client Account and entered into between the Defaulting FXCCM and the Clearing House, in respect of such ForexClear Clearing Client, (ii) the Account Balance(s) recorded to the Relevant Client Account and attributable to such ForexClear Clearing Client, and (iii) such other related information as determined by the Clearing House in its sole discretion; and
- (b) “Relevant Client Account” means, in respect of a Defaulting FXCCM and a ForexClear Clearing Client, a Client Account (i) in the ForexClear Service and in the name of such Defaulting FXCCM, and (ii) attributable to such ForexClear Clearing Client (and, as applicable, one or more other ForexClear Clearing Client(s)).

~~A ForexClear Clearing Client may appoint a Backup Clearing Member for the purposes of the porting of the ForexClear Contracts entered into by a ForexClear Clearing Member on its behalf, in accordance with the Client Clearing Annex.~~

~~Where, following the Default of a ForexClear Clearing Member, the Clearing House is notified of the existence of such a Backup Clearing Member in respect of a ForexClear Clearing Client, the Clearing House is entitled, in accordance with the Client Clearing Annex, to immediately and without notice to any person, send details of the Relevant Contracts and Account Balances to that appointed Backup Clearing Member. The Clearing House shall not require consent from any person in advance of sending these details.~~

~~Note: The appointment by a ForexClear Clearing Client of a Backup Clearing Member and the notification of a Backup Clearing Member to the Clearing House does not mean that ForexClear Contracts will always be transferred to that Backup Clearing Member. Porting of ForexClear Contracts, following a ForexClear Clearing Member's Default is always subject to the Clearing House's receipt of consent from the relevant Backup Clearing Member.~~

1.13 Provision of Tax Forms

The Clearing House and each FXCCM shall provide to each FXCCM or the Clearing House, as relevant, (i) any forms or documents specified in the ForexClear Contract between the Clearing House and the FXCCM and (ii) any other form, document, statement or certification reasonably requested in writing by the FXCCM or the Clearing House in order to allow the FXCCM or the Clearing House to make a payment under the Rules of the Clearing House or any ForexClear Contract without deduction or withholding for or on account of any tax or with such deduction or withholding at a reduced rate unless the Clearing House or the FXCCM can no longer deliver such form, document, statement or certification solely as a result of a change in law (including double tax treaty) or interpretation thereof after the date of the ForexClear Contract between the Clearing House and the FXCCM. In the case of the Clearing House, the forms required pursuant to item (ii) above include an Internal Revenue Service Form W-8BEN. Additionally, the Clearing House will take such further actions as necessary to ensure that payments made to it can be made without deduction or withholding for or on account of any Tax.

1.14 Indirect Clearing

1.14.1 In circumstances where an early termination date (howsoever described) occurs in respect of all of the transactions between a ForexClear Clearing Member and a ForexClear Clearing Client acting on behalf of Indirect Clearing Clients comprising an Indirect Gross Account in respect of which such ForexClear Clearing Member (i) is a party to Related ForexClear Contracts and (ii) at the time of such early termination date, is not a Defaulter, that ForexClear Clearing Member may instruct the Clearing House to take one of the following steps in respect of each Indirect Clearing Client comprising the Indirect Gross Account:

- (a) in circumstances where the ForexClear Clearing Member notifies the Clearing House of a Backup Client in respect of the relevant Indirect Clearing Client, transfer all of the open Related ForexClear Contracts registered to the Indirect Gross Sub-Account referable to the Indirect Clearing Client to the relevant Indirect Gross Sub-Account referable to

Appendix III
Procedures Section 2J
("Listed Interest Rates Clearing Service")



LCH LIMITED

PROCEDURES SECTION 2J

LISTED INTEREST RATES CLEARING SERVICE

During Euroclear/Clearstream Luxemburg Overnight Processing

Where the Clearing House is taking delivery of Bonds, via Euroclear or Clearstream Luxemburg, and a Seller fails to deliver Deliverable Bonds to the Clearing House in the overnight processing cycle of Euroclear or Clearstream Luxemburg, the Clearing House will invoke automatic borrowing procedures, subject to supply.

All costs arising as a result of failure to deliver to the Clearing House in the Euroclear/ Clearstream Luxemburg overnight processing cycle will be passed to the defaulting Selling Clearing Member.

- (f) $S + 1$ The first Luxembourg working day immediately following Settlement Day ($LTD + 3$)

The Clearing House releases Collateral in respect of initial and contingent variation margin for successfully completed deliveries.

1.14 Listed Interest Rates Client Clearing

1.14.1 Listed Interest Rates Client Clearing – Ancillary Documentation

- (a) *Security Deed*

Unless specified otherwise by the Clearing House, a Listed Interest Rates Clearing Member must enter into a Security Deed in respect of its Clearing Clients in relation to amounts due to it from the Clearing House pursuant to the Client Clearing Annex. Further information in relation to such Security Deed is prescribed by the Clearing House from time to time and published on the Clearing House's website.

- (b) *Clearing House Prescribed Language*

Pursuant to the Clearing House's Regulations, each Listed Interest Rates Clearing Member is required to ensure that it includes certain language in its agreement with its Listed Interest Rates Clearing Client(s) (the "**Clearing House Prescribed Language**"). The Clearing House Prescribed Language is shown at Schedule 2 of Procedure 4 (*Margin and Collateral*).

1.14.2 Backup Clearing Members

A Listed Interest Rates Clearing Client may, at any time, appoint one or more Backup Clearing Member(s) in respect of the Listed Interest Rates Service, for the purpose of porting Listed Interest Rates Contracts entered into by a Listed Interest Rates Clearing Member on its behalf and corresponding Account Balance(s), in accordance with the Client Clearing Annex.

A Listed Interest Rates Clearing Member agrees that the Clearing House is permitted, after the Default of such Listed Interest Rates Clearing Member, to disclose the Portfolio in respect of a Relevant Client Account and Listed Interest Rates Clearing Client of such Listed Interest Rates Clearing Member, to each Backup Clearing Member appointed by such Listed Interest Rates Clearing Client in respect of the Listed Interest Rates Service.

For the purposes of this Section 1.14.2:

- (a) **“Portfolio”** means, in respect of a Relevant Client Account and a Listed Interest Rates Clearing Client (i) the Contract(s) recorded to the Relevant Client Account and entered into between the Defaulting Listed Interest Rates Clearing Member and the Clearing House, in respect of such Listed Interest Rates Clearing Client, (ii) the Account Balance(s) recorded to the Relevant Client Account and attributable to such Listed Interest Rates Clearing Client, and (iii) such other related information as determined by the Clearing House in its sole discretion; and
- (b) **“Relevant Client Account”** means, in respect of a Defaulting Listed Interest Rates Clearing Member and a Listed Interest Rates Clearing Client, a Client Account (i) in the Listed Interest Rates Service and in the name of such Defaulting Listed Interest Rates Clearing Member, and (ii) attributable to such Listed Interest Rates Clearing Client (and, as applicable, one or more other Listed Interest Rates Clearing Client(s)).

~~A Listed Interest Rates Clearing Client may appoint a Backup Clearing Member for the purposes of the porting of the Listed Interest Rates Contracts entered into by a Listed Interest Rates Clearing Member on its behalf, in accordance with the Client Clearing Annex.~~

~~Where, following the Default of a Listed Interest Rates Clearing Member, the Clearing House is notified of the existence of such a Backup Clearing Member in respect of a Listed Interest Rates Clearing Client, the Clearing House is entitled, in accordance with the Client Clearing Annex, to immediately and without notice to any person, send details of the Relevant Contracts and Account Balances to that appointed Backup Clearing Member. The Clearing House shall not require consent from any person in advance of sending these details.~~

~~Note: The appointment by a Listed Interest Rates Clearing Client of a Backup Clearing Member and the notification of a Backup Clearing Member to the Clearing House does not mean that Listed Interest Rates Contracts will always be transferred to that Backup Clearing Member. Porting of Listed Interest Rates Contracts, following a Listed Interest Rates Clearing Member's Default is always subject to the Clearing House's receipt of consent from the relevant Backup Clearing Member.~~

1.14.2.1.14.3 Rates Service Default Management Disclosure Notice

Each Listed Interest Rates Clearing Member must ensure that each Clearing Client is provided with, or is directed to a copy of, the Rates Service Default Management Disclosure Notice and further must provide confirmation to the Clearing House, in the form and manner reasonably required by the Clearing House, that it has discharged this obligation in respect of each of its Clearing Clients.

Appendix IV
Default Rules

LCH The Markets'
Partner

**LCH LIMITED
DEFAULT RULES**

SCHEDULE 1
CLIENT CLEARING ANNEX

1. The Client Clearing DMP in respect of any contract which is a Contract entered into in respect of Client Clearing Business other than FCM Contracts (each a "**Relevant Contract**") shall involve the stages set out in this Annex. For the avoidance of doubt, in the case of a Defaulter who engages in more than one Relevant Client Clearing Business, the stages set out in this Annex will be implemented
 - (a) subject to paragraph (b) below, separately in relation to the Relevant Contracts entered into by such Defaulter in respect of each such Relevant Client Clearing Business; and
 - (b) as a single process in respect of all Relevant Contracts that are Rates Service Contracts entered into by a Defaulter on behalf of its Portfolio Margining Clients on a combined basis.

Except in respect of Relevant Contracts entered into in respect of Rates Service Client Clearing Business, the Clearing House will not combine Relevant Contracts relating to different Relevant Client Clearing Businesses in a single Client Clearing DMP. The terms "**Account Balance**", "**Clearing Client**", "**Relevant Contract**", "**Relevant Auction Contract**", "**Individual Segregated Account**", "**Custodial Segregated Account**", "**Individual Segregated Account Clearing Client**", "**Custodial Segregated Client**", "**Individual Segregated Account Balance**", "**Custodial Segregated Account Balance**", "**Indirect Gross Account**", "**Indirect Gross Account Clearing Client**", "**Indirect Net Account**", "**Indirect Net Account Clearing Client**", "**Omnibus Segregated Account**", "**Non-Identified Client Omnibus Net Segregated Account**", "**Identified Client Omnibus Net Segregated Account**", "**Affiliated Client Omnibus Net Segregated Account**", "**Omnibus Gross Segregated Account**", "**Non-Identified Omnibus Segregated Clearing Client**", "**Identified Omnibus Segregated Clearing Client**", "**Affiliated Omnibus Segregated Clearing Client**", "**Omnibus Gross Segregated Clearing Client**", "**Omnibus Segregated Account Balance**", "**Indirect Clearing Client**", "**Client Clearing Entitlement**", "**Aggregate Omnibus Client Clearing Entitlement**" and "**Clearing Agreement**" where used in paragraphs 2 to 18 of this Annex shall be interpreted accordingly.

2. For the purposes of this Annex, a Relevant Contract relating to ForexClear Clearing Client Business or Rates Service Client Clearing Business of a Clearing Member and a Relevant Contract relating to RepoClear Client Clearing Business of a Clearing Member which is a Fixed Income Contract (each a "**Relevant Auction Contract**") will be included in a Portfolio (as such term is defined in, respectively, the ForexClear DMP Annex to the Default Rules, the Rates Service DMP Annex to the Default Rules and the RepoClear DMP Annex to the Default Rules) from such time as the Clearing House determines that such Relevant Auction Contract will not be ported. For the avoidance of doubt, any such Portfolio will only contain Relevant Auction Contracts entered into by a Clearing Member on behalf of its Clearing Clients. The Clearing House shall not be entitled to combine client and house positions in a single Portfolio.
3. In the case of a Relevant Contract other than a Relevant Auction Contract which cannot be ported in accordance with the terms of this Annex, the Clearing House may take any one or more of those other steps which are set out in Rule 6 of the Default Rules (and

which are applicable to open contracts of the relevant type) in respect of such Relevant Contract, from such time as the Clearing House determines that porting will not occur.

4. If a Clearing Member becomes a Defaulter, the Clearing House shall:
 - 4.1 determine one or more Porting Windows in respect of the relevant Default where "**Porting Window**" means the period of time, commencing on the day of the relevant Default and being at least 24 hours (other than in the case of a Porting Window Reduction (as defined below) or, in the case of a Custodial Segregated Account only, a Porting Window which terminates in accordance with paragraph 4.1(b)(i) of this Client Clearing Annex), during which the Clearing House will seek to transfer Relevant Contacts entered into by the Defaulter and the Account Balances held in any Client Accounts opened by the Defaulter with the Clearing House to one or more Backup Clearing Members in accordance with the provisions of this Client Clearing Annex and (where applicable) any relevant Collateral Management Agreement. Each such Porting Window will:
 - (a) be determined by the Clearing House in its sole discretion separately in respect of each type of Client Account within each separate Relevant Client Clearing Business of the relevant Defaulter (where Individual Segregated Accounts, Indirect Gross Accounts, Custodial Segregated Accounts, Omnibus Gross Segregated Accounts, Identified Client Omnibus Net Segregated Accounts and Affiliated Client Omnibus Net Segregated Accounts are each a different "type of Client Account") and published on its website;
 - (b) for a Custodial Segregated Account, terminate on the occurrence of one of the following events:
 - (i) the Relevant Contracts and Account Balance relating to the Custodial Segregated Account are ported; or
 - (ii) the Clearing House notifies the relevant Custodial Segregated Client that it has determined that the Relevant Contracts and Account Balance relating to the Custodial Segregated Account will not port; and
 - (c) in relation to any type of Client Account other than a Custodial Segregated Account, reflect, where applicable, any subsequent extension of the relevant period of time referred to in paragraph 4.1 applied by the Clearing House in its sole discretion and notified by means of a further publication on its website; and
 - (d) in relation to a particular Client Account, reflect, where applicable, any reduction of such period of time (a "**Porting Window Reduction**") applied by the Clearing House in its sole discretion and notified by means of a further publication on its website, provided, however, that (i) a Porting Window Reduction may be applied by the Clearing House to a particular Client Account solely where the Required Margin Amount in respect of such Client Account following the relevant Default becomes equal to 50% or more of the value of the Clearing Member Current Collateral Balance of such Client Account at the time of such Default; and (ii) in no circumstances will the total duration of the Porting Window following a Porting Window Reduction be less than 12 hours;

- 4.2 determine the Account Balances;
- 4.3 in the case of any Non-Identified Client Omnibus Net Segregated Account or Indirect Net Account (as applicable) of a Defaulter who is an Exempt Client Clearing Member, seek to determine, in accordance with its default management procedures, the identities of each of the Clearing Clients grouped together in and comprising the relevant Non-Identified Client Omnibus Net Segregated Account or Indirect Net Account (as applicable). Where the Clearing House so determines the identities of all of the relevant Clearing Clients grouped together within the Non-Identified Client Omnibus Net Segregated Account or Indirect Net Account (as applicable) to its satisfaction and in its sole and absolute discretion, each group of Clearing Clients shall cease to be designated as Non-Identified Omnibus Net Segregated Clearing Clients or Indirect Net Account Clearing Clients (as applicable) and shall instead be redesignated as Determined Omnibus Net Segregated Clearing Clients, and each such group shall be allocated to a separate Identified Client Omnibus Net Segregated Account (and the term "**Determined Omnibus Net Segregated Clearing Clients**" is defined accordingly);
- 4.4 ascertain to its satisfaction whether each Clearing Client of the Defaulter from whom porting instructions are received has appointed a Backup Clearing Member. For the avoidance of doubt where the Defaulter is a Portfolio Margining Clearing Member and the relevant Clearing Client(s) is or are Portfolio Margining Client(s) (as applicable), each Backup Clearing Member appointed by such Portfolio Margining Client(s) in respect of the Relevant Contracts entered into in respect of Rates Service Client Clearing Business, must also be a Portfolio Margining Clearing Member; and
- 4.5 where applicable, send details of the open Relevant Contracts and the Account Balances to the nominated Backup Clearing Member for each relevant Individual Segregated Account, each relevant Indirect Gross Account, each relevant Custodial Segregated Account, each relevant Omnibus Gross Segregated Clearing Client, each relevant group of Combined Omnibus Gross Segregated Clearing Clients and each relevant Omnibus Segregated Account of the Defaulter.
5. ~~[reserved] Following the occurrence of a Default, the Clearing House will specify (and publish on its website) the deadline in respect of that particular Default by which time a consent to porting must be received from a client for the purposes of paragraphs 6.1 and 6.2, 7 or 8.1 and 8.2 (as applicable) in order for the Clearing House to seek to port that client's Relevant Contracts. Any such consent may be provided in writing (including by facsimile and email) and, once received by the Clearing House, may not be withdrawn.~~
6. Subject to paragraph 14 below, in circumstances where (a) an Individual Segregated Account Clearing Client, an Indirect Gross Account Clearing Client, a Custodial Segregated Client or an individual Omnibus Gross Segregated Clearing Client (other than a Combined Omnibus Gross Segregated Clearing Client) has appointed a Backup Clearing Member; and (b) within such period as the Clearing House may determine of the service of a Default Notice on the relevant Clearing Member pursuant to Rule 3 of the Default Rules or the Clearing House becoming aware of the occurrence of an Automatic Early Termination Event in respect of that Clearing Member (as the case may be), the Clearing House has received confirmation in writing from the Backup Clearing Member of its agreement to act as Backup Clearing Member in relation to the arrangements described in paragraph 6.1 below and [agreement](#) from the relevant client

to such arrangements (in each case, in such form as the Clearing House may require at the relevant time):

- 6.1 the Clearing House shall (a) transfer all of the open Relevant Contracts entered into by the Defaulter in respect of the relevant Clearing Client to the appointed Backup Clearing Member; or (b) terminate and close out such contracts at their market value (as determined by the Clearing House in its discretion) and enter into new contracts on equivalent terms to such contracts with the appointed Backup Clearing Member in respect of the relevant Clearing Client;
- 6.2 where the relevant Clearing Client (in an exercise of its rights under the relevant Security Deed or, in the case of such a client of a Defaulter who is an Exempt Client Clearing Member, following acceleration of the obligations of the Defaulter under its Undertaking to Pay and Deliver, so that such obligations become immediately due and payable, and satisfaction of such obligations by the Clearing House enforcing the security granted in its favour by the Defaulter under the relevant Deed of Charge) instructs a transfer of the Account Balance attributable to it to the appointed Backup Clearing Member, the Clearing House shall give effect to such instruction;
- 6.3 in respect of a Custodial Segregated Account and an ISA Port of the Relevant Contracts and Account Balance attributable to such Custodial Segregated Account to a Backup Clearing Member, such Backup Clearing Member acknowledges and agrees that immediately after the Clearing House obtains the rights, title and interests of the relevant Custodial Segregated Client in the Client Collateral forming part of such Account Balance in accordance with the relevant Collateral Management Agreement:
 - (a) the Clearing House shall be deemed to have transferred such rights, title and interests to such Backup Clearing Member;
 - (b) the Client Collateral forming part of the Account Balance, in respect of the Custodial Segregated Account, shall become subject to the relevant Deed of Charge of such Backup Clearing Member and "Charged Property" within the meaning of such Deed of Charge;
 - (c) the Client Collateral forming part of the Account Balance, in respect of the Custodial Segregated Account, shall cease to do so and shall, instead, form part of the Clearing Member Current Collateral Balance, in respect of the relevant Individual Segregated Account of the Backup Clearing Member; and
 - (d) all such Client Collateral shall be deemed to be Collateral which the Backup Clearing Member has provided to the Clearing House in respect of the relevant Individual Segregated Account;
- 6.4
 - (a) upon the Clearing House taking the actions specified in paragraph 6.1(a) above:
 - (i) that portion (if any) of the Clearing House Current Collateral Balance in respect of the Defaulter which is attributable to the Relevant Contracts referred to in that paragraph (the "**Relevant Portion**") shall be reduced to zero; and (ii) the Clearing House Current Collateral Balance in respect of the Backup Clearing Member shall be increased by an amount equal to the value of the

Relevant Portion immediately prior to the reduction referred to in (i) immediately above; and

- (b) upon the Clearing House taking the actions specified in paragraph 6.1(b) above, the Clearing House Current Collateral Balance in respect of the Backup Clearing Member shall be increased by an amount equal to the value of that portion of the Clearing House Current Collateral Balance in respect of the Defaulter which was attributable to the Relevant Contracts referred to in that paragraph immediately prior to the termination and close-out of such Relevant Contracts in accordance with that paragraph; and

6.5 ~~the amount of Collateral due to be returned to the Defaulter in respect of the relevant Client Account or the monetary value representing such amount of Collateral shall be reduced by an amount: (a) equivalent to the amount of Collateral comprising the Account Balance attributable to the relevant Clearing Client; or (b) equalling the monetary value representing such Account Balance (as applicable), transferred to the Backup Clearing Member, as referred to in paragraph 6.2 above~~[reserved];

7. [reserved]

8. Subject to paragraph 14 below, in circumstances where (a) all of the Identified Omnibus Net Segregated Clearing Clients of a Defaulter identified by the Clearing House as comprising a single Identified Client Omnibus Net Segregated Account or all of the Affiliated Omnibus Net Segregated Clearing Clients of a Defaulter identified by the Clearing House as comprising a single Affiliated Client Omnibus Net Segregated Account or each of the Omnibus Gross Segregated Clearing Clients comprising a group of Combined Omnibus Gross Segregated Clearing Clients, have appointed a single Backup Clearing Member; and (b) within such period as the Clearing House may determine following the service of a Default Notice on the relevant Clearing Member pursuant to Rule 3 of the Default Rules or the Clearing House becoming aware of the occurrence of an Automatic Early Termination Event in respect of that Defaulter (as the case may be), the Clearing House has received confirmation in writing from the Backup Clearing Member of its agreement to act as Backup Clearing Member in relation to the arrangements described in paragraph 8.1 below and [agreement](#) from the relevant clients [to such arrangements \(in each case\)](#), in such form as the Clearing House may require at the relevant time):

8.1 the Clearing House shall (a) transfer all of the open Relevant Contracts entered into by the Defaulter in respect of the relevant clients to the appointed Backup Clearing Member; or (b) terminate and close out such contracts at their market value (as determined by the Clearing House in its discretion) and enter into new contracts on equivalent terms to such contracts with the appointed Backup Clearing Member in respect of the relevant clients;

8.2 where all of the relevant clients (in an exercise of their respective rights under the relevant Security Deed or, in the case of such clients of a Defaulter who is an Exempt Client Clearing Member, following acceleration of the obligations of the Defaulter under its Undertaking to Pay and Deliver, so that such obligations become immediately due and payable, and satisfaction of such obligations by the Clearing House enforcing the security granted in its favour by the Defaulter under the relevant Deed of Charge) instruct a transfer of the Omnibus Segregated Account Balances attributable to them to

the appointed Backup Clearing Member, the Clearing House shall give effect to such instructions;

8.3

- (a) upon the Clearing House taking the actions specified in paragraph 8.1(a) above:
 - (i) that portion (if any) of the Clearing House Current Collateral Balance in respect of the Defaulter which is attributable to the Relevant Contracts referred to in that paragraph (the "**Relevant Portion**") shall be reduced to zero; and (ii) the Clearing House Current Collateral Balance in respect of the Backup Clearing Member shall be increased by an amount equal to the value of the Relevant Portion immediately prior to the reduction referred to in (i) immediately above; and
- (b) upon the Clearing House taking the actions specified in paragraph 8.1(b) above, the Clearing House Current Collateral Balance in respect of the Backup Clearing Member shall be increased by an amount equal to the value of that portion of the Clearing House Current Collateral Balance in respect of the Defaulter which was attributable to the Relevant Contracts referred to in that paragraph immediately prior to the termination and close-out of such Relevant Contracts in accordance with that paragraph; and

8.4 ~~[reserved]the amount of Collateral due to be returned to the Defaulter in respect of the Omnibus Segregated Account in which the relevant Omnibus Segregated Clearing Clients have an interest or the monetary value representing such amount of Collateral shall be reduced by an amount: (a) equivalent to the aggregate amount of Collateral comprising the Omnibus Segregated Account Balances attributable to the relevant Omnibus Segregated Clearing Clients or (b) equalling the aggregate monetary values representing such Omnibus Segregated Account Balances (as applicable) transferred to the Backup Clearing Member, as referred to in paragraph 8.2 above.~~

9. The Clearing House will seek to port Relevant Contracts and Account Balances under paragraphs 6.1 and 6.2 above, ~~7~~ or 8.1 and 8.2 above, within the relevant Porting Window. In relation to those Clearing Clients of the Defaulter (including any such Clearing Clients who are acting on behalf of Indirect Clearing Clients) whose open Relevant Contracts are not dealt with pursuant to paragraphs 6.1 and 6.2 above, ~~7~~ or 8.1 and 8.2 above, the processes described in paragraphs 9.1 to 9.3 below shall ~~continue~~ apply.

9.1 In the case of (x) those Clearing Clients who are Individual Segregated Account Clearing Clients, Custodial Segregated Clients, Identified Omnibus Segregated Clearing Clients or Affiliated Omnibus Segregated Clearing Clients, the Clearing House shall calculate the entitlement to Collateral and amounts in respect of the close-out of Relevant Contracts of the Defaulter in respect of each such Clearing Client, and/or (y) those Clearing Clients who are Indirect Gross Account Clearing Clients, the Clearing House shall calculate the entitlement to Collateral and amounts in respect of the close-out of Relevant Contracts of the Defaulter in respect of each Indirect Gross Sub-Account within the Indirect Gross Account opened in respect of each such Indirect Gross Account Clearing Client (each amount calculated pursuant to (x) and (y), a "**Client Clearing Entitlement**") reflecting (a) the addition of any sums due from the Clearing House in respect of the close-out of the Relevant Contracts entered into by the Defaulter in respect of the relevant Clearing Client and (b) the deduction of (i) the costs

of any hedging undertaken; (ii) amounts required to discharge all obligations owed to the Clearing House relating to Relevant Contracts entered into by the Defaulter in respect of the relevant Clearing Client (in the case of Relevant Auction Contracts, such amounts, together with the amounts referred to in (a) and the costs referred to in (b)(i) of this paragraph 9.1, being determined by the Clearing House under the processes provided for by the Rates Service DMP Annex, the ForexClear DMP Annex or the RepoClear DMP Annex (as applicable)); (iii) any amounts to be deducted to reflect the operation of any set-off provision contained in a Clearing Agreement entered into between the Defaulter and the relevant Clearing Client and confirmed in writing to the Clearing House by or on behalf of both such parties; (iv) in respect of Clearing Clients who are identified by the Clearing House as comprising an Omnibus Segregated Account which is not an Omnibus Gross Segregated Account, amounts required to discharge all obligations owed to the Clearing House relating to Relevant Contracts entered into by the Defaulter in respect of other Omnibus Segregated Clearing Clients identified by the Clearing House as comprising the relevant Omnibus Segregated Account in question, in each case allocated *pro rata* as the Clearing House sees fit, in its sole discretion and (v) in respect any Omnibus Gross Segregated Clearing Client forming part of a group of Combined Omnibus Gross Segregated Clearing Clients, amounts required to discharge all obligations owed to the Clearing House relating to Relevant Contracts entered into by the Defaulter in respect of other Omnibus Gross Segregated Clearing Clients forming part of the same group of Combined Omnibus Gross Segregated Clearing Clients, in each case allocated *pro rata* as the Clearing House sees fit, in its sole discretion.

~~Save in the case of any amount paid to a Clearing Client in accordance with paragraph 9.2 below, †~~The Clearing House will (upon, where applicable, instruction from the relevant Clearing Client in an exercise of its rights under the relevant Security Deed or, in the case of such a client of a Defaulter who is an Exempt Client Clearing Member, following acceleration of the obligations of the Defaulter under its Undertaking to Pay and Deliver, so that such obligations become immediately due and payable, and satisfaction of such obligations by the Clearing House enforcing the security granted in its favour by the Defaulter under the relevant Deed of Charge) ~~pay provide~~ the amounts of the Client Clearing Entitlements calculated by it under this paragraph 9.1 to the Defaulter for the account of the relevant Clearing Clients, except where it provides any such amount to a Clearing Client in accordance with paragraph 9.2 below.

9.2 Where the relevant Individual Segregated Account Clearing Client, Indirect Gross Account Clearing Client, Custodial Segregated Client, Identified Omnibus Segregated Clearing Client or Affiliated Omnibus Segregated Clearing Client (in an exercise of its rights under the relevant Security Deed or, in the case of such a client of a Defaulter who is an Exempt Client Clearing Member, following acceleration of the obligations of the Defaulter under its Undertaking to Pay and Deliver, so that such obligations become immediately due and payable, and satisfaction of such obligations by the Clearing House enforcing the security granted in its favour by the Defaulter under the relevant Deed of Charge) instructs the Clearing House to ~~pay provide~~ an amount to it equal to the Client Clearing Entitlement(s) due to be ~~returned provided~~ in respect of it to the Defaulter, the Clearing House shall seek to give effect to such instructions, subject to the satisfaction of the following requirements in respect of such Clearing Client, but may (at its sole discretion) provide the amount of such Client Clearing

Entitlement(s) to the Defaulter for the account of the Clearing Client in accordance with paragraph 9.1 above:

- (a) the Clearing House having the operational ability to transfer cash and/or financial instruments equal to the amount of the Client Clearing Entitlement(s) to the relevant Clearing Client:
- (b) the delivery and/or execution by the relevant Clearing Client and/or, where applicable, execution by the relevant Clearing Client, of appropriate documentation as specified by on the Clearing House's website from time to time (which may, without limitation, include an indemnity (secured or otherwise)); and
- (c) in the case of any deduction made pursuant to (iii) in paragraph 9.1 of this Annex, the provision of appropriate documentation by or on behalf of the Defaulter;
- ~~(d) in the case of an Affiliated Omnibus Net Segregated Clearing Client or an Identified Omnibus Net Segregated Clearing Client (for the purposes of this paragraph 9.2, the "relevant Omnibus Net Segregated Clearing Client") the delivery to the Clearing House by the relevant Omnibus Net Segregated Clearing Client of notification, setting out (to the satisfaction of the Clearing House, at its sole and absolute discretion and without the need for independent verification): (i) the identity of the relevant Omnibus Net Segregated Clearing Client; (ii) the relevant Omnibus Net Segregated Clearing Client's *pro rata* entitlement to the Collateral and amounts in respect of the close out of Relevant Contracts held in the relevant Omnibus Segregated Account; and (iii) confirmation that the *pro rata* share referred to in (ii) has been agreed between the relevant Omnibus Net Segregated Clearing Client and all of the other Clearing Clients identified by the Clearing House as comprising the same single Omnibus Segregated Account as the relevant Omnibus Net Segregated Clearing Client (for the purposes of this paragraph 9.2, each such other Clearing Client being a "relevant other Omnibus Net Segregated Clearing Client"); and~~
- ~~(e) in the case of a relevant Omnibus Net Segregated Clearing Client, the delivery to the Clearing House by each of the relevant other Omnibus Net Segregated Clearing Clients in respect of that relevant Omnibus Net Segregated Clearing Client, of notification setting out the equivalent information in respect of the relevant other Omnibus Net Segregated Clearing Client as is required to be provided to the Clearing House in the notification described in paragraph (e) above in respect of a relevant Omnibus Net Segregated Clearing Client.~~

~~The Clearing House will determine in its sole and absolute discretion, in accordance with its default management procedures applicable to the Relevant Client Clearing Business and its risk management obligations, the period of time (the "Return Window") during which it will seek to give effect to instructions received from Clearing Clients in accordance with this paragraph 9.2. The Clearing House may determine a different Return Window in respect of each different type of Client Account opened by the Defaulter with the Clearing House (where Individual Segregated Accounts, Custodial Segregated Accounts, Indirect Gross Accounts, Omnibus Gross Segregated Accounts, Identified Client Omnibus Net Segregated Accounts and~~

~~Affiliated Client Omnibus Net Segregated Accounts are each a different "type of Client Account") and will publish each such Return Window on its website. Any Client Clearing Entitlement which has not been paid by the Clearing House to the relevant Clearing Client in accordance with this paragraph 9.2 by the time of the expiry of the relevant Return Window shall instead be paid to the Defaulter for the account of the relevant Clearing Client in accordance with paragraph 9.1 above.~~

9.29.3 In the case of a Non-Identified Client Omnibus Net Segregated Account of a Defaulter and the Non-Identified Omnibus Segregated Clearing Clients grouped together in such account, the Clearing House shall calculate the aggregate entitlement to Collateral and amounts in respect of the close-out of Relevant Contracts (the "**Aggregate Omnibus Client Clearing Entitlement**") of the Defaulter in respect of all such clients collectively reflecting (a) the addition of any sums due from the Clearing House in respect of the close-out of the Relevant Contracts entered into by the Defaulter in respect of the relevant clients, and (b) the deduction of (i) the costs of any hedging undertaken; (ii) amounts required to discharge all obligations owed to the Clearing House relating to Relevant Contracts entered into by the Defaulter in respect of the relevant clients (in the case of Relevant Auction Contracts, such amounts, together with the amounts referred to in (a) and the costs referred to in (b)(i) of this paragraph 9.3, being determined by the Clearing House under the processes provided for by the Rates Service DMP Annex, the ForexClear DMP Annex or the RepoClear DMP Annex (as applicable)); (iii) any amounts to be deducted to reflect the operation of any set-off provision contained in a Clearing Agreement entered into between the Defaulter and any such relevant client and confirmed in writing to the Clearing House by or on behalf of both such parties; and (iv) amounts required to discharge all obligations owed to the Clearing House relating to Relevant Contracts entered into by the Defaulter in respect of the other Non-Identified Omnibus Segregated Clearing Clients of the Defaulter, in each case allocated *pro rata* as the Clearing House sees fit in its sole discretion. All amounts calculated in respect of Aggregate Omnibus Client Clearing Entitlements under this paragraph 9.3 shall be paid by the Clearing House to the Defaulter for the account of the relevant clients.

9.39.4 In the case of an Indirect Net Account of a Defaulter and the Indirect Net Account Clearing Clients grouped together in such account, the Clearing House shall calculate the aggregate entitlement to Collateral and amounts in respect of the close-out of Relevant Contracts (the "**Aggregate Indirect Net Account Client Clearing Entitlement**") of the Defaulter in respect of all such clients collectively reflecting (a) the addition of any sums due from the Clearing House in respect of the close-out of the Relevant Contracts entered into by the Defaulter in respect of the relevant clients, and (b) the deduction of (i) the costs of any hedging undertaken; (ii) amounts required to discharge all obligations owed to the Clearing House relating to Relevant Contracts entered into by the Defaulter in respect of the relevant clients (in the case of Relevant Auction Contracts, such amounts, together with the amounts referred to in (a) and the costs referred to in (b)(i) of this paragraph 9.4, being determined by the Clearing House under the processes provided for by the Rates Service DMP Annex, the ForexClear DMP Annex or the RepoClear DMP Annex (as applicable)); (iii) any amounts to be deducted to reflect the operation of any set-off provision contained in a Clearing Agreement entered into between the Defaulter and any such relevant client and confirmed in writing to the Clearing House by or on behalf of both such parties; and (iv) amounts required to discharge all obligations owed to the Clearing House relating

Appendix V
General Regulations



**GENERAL REGULATIONS OF
LCH LIMITED**

REGULATION 57A SETTLEMENT OF SWAPCLEAR STM CONTRACTS AND CONVERSION TO SWAPCLEAR STM CONTRACTS

- (a) Each SwapClear Contract registered in the name of a SwapClear Clearing Member that is established under the laws of any state of the United States or under the federal laws of the United States shall be designated a SwapClear STM Contract.
- (b) Notwithstanding anything to the contrary in Regulation 20, neither the Clearing House nor a SwapClear Clearing Member shall be obliged to make any payment by way of variation margin in respect of a SwapClear STM Contract. This Regulation 57A shall be without prejudice to the Clearing House's other rights to require Collateral to be transferred to it under Regulation 20 (including, but not limited to, its right to require Collateral to be transferred to it in respect of a SwapClear Clearing Member's initial margin obligations in respect of a SwapClear STM Contract).
- (c) The Clearing House shall, at least once per Business Day, determine (i) the change in the net present value of each SwapClear STM Contract, and (ii) the Price Alignment Amount payable on such Business Day, in each case in such manner and at such times as may be provided in the Procedures. Immediately upon the Clearing House making each such determination of the net present value of a SwapClear STM Contract, an NPV Reset shall occur with respect to that SwapClear STM Contract.
- (d) Upon the occurrence of an NPV Reset in relation to a SwapClear STM Contract:
- ~~(iii)~~ (i) if the Clearing House has determined that the net present value of the SwapClear STM Contract has increased since the immediately preceding NPV Reset, an amount of cash denominated in the currency of the SwapClear STM Contract (as specified in the Economic Terms relating to that SwapClear STM Contract) equal to the amount of such increase shall immediately become due and payable by the SwapClear Clearing Member to the Clearing House under the SwapClear STM Terms;
 - ~~(iv)~~ (ii) if the Clearing House has determined that the net present value of the SwapClear STM Contract has decreased since the immediately preceding NPV Reset, an amount of cash denominated in the currency of the SwapClear STM Contract (as specified in the Economic Terms relating to that SwapClear STM Contract) equal to the amount of such decrease shall immediately become due and payable by the Clearing House to the SwapClear Clearing Member under the SwapClear STM Terms;
 - ~~(v)~~(iii) if the Clearing House has determined that the net present value of the SwapClear STM Contract has not changed since the immediately preceding NPV Reset, neither the Clearing House nor the SwapClear Clearing Member shall be obliged to make any payment; and
 - ~~(vi)~~(iv) the net present value of the SwapClear STM Contract shall for all purposes be equal to zero.
- (e) The SwapClear Clearing Member and the Clearing House hereby agree that:

- (i) for the avoidance of doubt, an "increase" in the net present value of a SwapClear STM Contract shall mean that the net present value of that SwapClear STM Contract has moved in favour of the Clearing House since the immediately preceding NPV Reset;
 - (ii) for the avoidance of doubt, a "decrease" in the net present value of a SwapClear STM Contract shall mean that the net present value of that SwapClear STM Contract has moved in favour of the SwapClear Clearing Member since the immediately preceding NPV Reset; and
 - (iii) unless otherwise agreed between the SwapClear Clearing Member and the Clearing House, the net present value of a SwapClear STM Contract on the Trade Date (as such term is defined in the SwapClear STM Terms applicable to that SwapClear STM Contract) shall be equal to zero.
- (f) Except as prescribed in the Procedures, the net present value calculated by the Clearing House shall in no circumstances be called in question.
- (g) Upon the Clearing House's determination of the Price Alignment Amount in relation to a SwapClear STM Contract:
- (i) if the Clearing House has determined that the Cumulative Net Present Value is greater than zero, then, subject to (iii) below, an amount of cash denominated in the currency of the SwapClear STM Contract (as specified in the Economic Terms relating to that SwapClear STM Contract) equal to the Price Alignment Amount shall immediately become due and payable by the Clearing House to the SwapClear Clearing Member;
 - (ii) if the Clearing House has determined that the Cumulative Net Present Value is less than zero, then, subject to (iii) below, an amount of cash denominated in the currency of the SwapClear STM Contract (as specified in the Economic Terms relating to that SwapClear STM Contract) equal to the Price Alignment Amount shall immediately become due and payable by the SwapClear Clearing Member to the Clearing House; and
 - (iii) if the Price Alignment Amount payable by a party on a Business Day (as such term is defined in the SwapClear STM Terms relating to that SwapClear STM Contract) is a negative amount, then the Price Alignment Amount payable by that party will be deemed to be zero, and the other party will pay to that party the absolute value of the negative Price Alignment Amount on such Business Day (as such term is defined in the SwapClear STM Terms relating to that SwapClear STM Contract).
- (h) For the purpose of determining the Cumulative Net Present Value of a SwapClear STM Contract that has been either (i) transferred to a Backup Clearing Member pursuant to the Default Rules in relation to SwapClear Contracts, or (ii) transferred to a Receiving Clearing Member pursuant to Regulation 60, the Trade Date of the SwapClear STM Contract that comes into existence immediately following such transfer shall be the Trade Date of the SwapClear STM Contract that was so transferred.

- (i) For the purpose of determining the Cumulative Net Present Value of a SwapClear STM Contract that has been converted from a SwapClear CTM Contract pursuant to this Regulation 57A the Trade Date of the SwapClear STM Contract that comes into existence immediately following such conversion shall be the Trade Date of the SwapClear CTM Contract that was so converted.
- (j) The payment of each of the amounts due and payable under the SwapClear STM Terms applicable to a SwapClear STM Contract shall be made in such manner and at such times as may be provided in the Procedures.
- (k) In respect of all SwapClear STM Contracts the Clearing House shall:
 - (i) on each Business Day (as such term is defined in the SwapClear STM Terms relating to that SwapClear STM Contract), and to the extent that the following amounts are payable in the same currency and in respect of the same Client Account (that is not an Indirect Gross Account), Proprietary Account or Indirect Gross Sub-Account (as applicable), aggregate:
 - (A) the amounts (if any) payable by the SwapClear Clearing Member to the Clearing House on such Business Day in accordance with Regulation 57A(~~e~~);
 - (B) the Price Alignment Amount (if any) payable by the SwapClear Clearing Member to the Clearing House on such Business Day in accordance with Regulation 57A(~~f~~);
 - (C) the amounts (if any) of the coupon payment payable by the SwapClear Clearing Member to the Clearing House on such Business Day in accordance with the Procedures; and
 - (D) any other amounts which are payable by the SwapClear Clearing Member to the Clearing House on such Business Day (excluding any amounts which are to be Charged Cash Collateral),
 - (ii) on each Business Day (as such term is defined in the SwapClear STM Terms relating to that SwapClear STM Contract), and to the extent that the following amounts are payable in the same currency and in respect of the same Client Account (that is not an Indirect Gross Account), Proprietary Account or Indirect Gross Sub-Account (as applicable), aggregate:
 - (A) the amounts (if any) payable by the Clearing House to the SwapClear Clearing Member on such Business Day in accordance with Regulation 57A(~~e~~);
 - (B) the Price Alignment Amount (if any) payable by the Clearing House to the SwapClear Clearing Member on such Business Day in accordance with Regulation 57A(~~f~~);
 - (C) the amounts (if any) of the coupon payment payable by the Clearing House to the SwapClear Clearing Member on such Business Day in accordance with the Procedures (excluding any amounts which are Charged Cash Collateral); and

- (D) any other amounts which are payable by the Clearing House to the SwapClear Clearing Member on such Business Day (excluding any amounts which are Charged Cash Collateral),

and the amount payable on a Business Day to one party (the **Payee**) by the other party (the **Payer**) under Regulation 57A(kj)(i) or (ii) (as applicable) shall be reduced by setting-off such amount against the amount (the **Other Amount**) payable by the Payee to the Payer under Regulation 57A(kj)(i) or (ii) (as applicable). To the extent the Other Amount is so applied, the Other Amount will be discharged promptly and in all respects.

(l) On each Business Day the Clearing House shall, to the extent that the following amounts are payable in the same currency and in respect of the same Client Account (that is not an Indirect Gross Account), Proprietary Account or Indirect Gross Sub-Account (as applicable) aggregate or set off (as applicable):

(i) the amount that is payable by either the SwapClear Clearing Member or the Clearing House following the operation of the payment netting provision under Regulation 57(d); and

(ii) the amount that is payable by either the SwapClear Clearing Member or the Clearing House following the operation of the payment netting provision under Regulation 57A(kj),

and only the resulting aggregate or net amount excess of the larger amount over the smaller amount shall be payable by either the SwapClear Clearing Member or the Clearing House (as applicable). the party by whom the larger amount would otherwise have been payable. To the extent one amount (the “Smaller Amount”) is so applied and set off against another larger amount, the such Smaller Amount will be discharged promptly and in all respects.

(+)(m) The Clearing House and the SwapClear Clearing Member agree that satisfaction of the payment obligation arising under the SwapClear STM Terms by either party shall discharge such obligation for the purpose of settling the then outstanding exposure under a SwapClear STM Contract.

(+)(n) A SwapClear Clearing Member (a “**Converting SwapClear Clearing Member**”) or a Clearing Client (including an FCM Client) on its behalf may, from time to time, submit a request, in such form as permitted by the Clearing House from time to time in its sole discretion, or, in the case of a compression of the type described in Regulation 56(c)(iii) or Regulation 56(e)(iv)(A), a SwapClear Clearing Member or a Clearing Client (including an FCM Client) on its behalf shall be deemed to have submitted a written request (each such request, an “**STM Conversion Request**”) to the Clearing House requesting that the Clearing House converts one or more of its open SwapClear CTM Contracts to SwapClear STM Contracts. Such request shall identify those SwapClear CTM Contracts (the “**STM Conversion Contracts**”) which the SwapClear Clearing Member or a Clearing Client (including an FCM Client) on its behalf wishes to be converted to SwapClear STM Contracts. No open SwapClear CTM Contract shall be converted into a SwapClear STM Contract except as provided in this Regulation 57A or the Procedures.