

VIA CFTC Portal

7 September 2016

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

Dear Mr Kirkpatrick:

LCH.Clearnet Ltd ("LCH"), a derivatives clearing organisation registered with the Commodity Futures Trading Commission (the "CFTC"), is submitting for self-certification, pursuant to CFTC regulation §40.6(a), Rulebook changes to implement its PPS Reform initiative which will take effect from 26 September 2016.

Part I: Explanation and Analysis

PPS Reform is the LCH proposal that seeks to reduce the PPS Banks' exposures to Clearing Members, which is a consequence of the existing agreed LCH PPS arrangements with respect to margin calls, whilst also reducing LCH's exposures to the PPS Banks.

PPS Reform has two key components. One component proposes to make more currencies same-day value currencies where possible – initially CHF and NOK are the currencies being proposed to be moved from next-day to same-day value, since the PPS Banks have confirmed they can process the relevant transactions for same-day value.

The other component of PPS Reform is to margin call an alternative deliverable major same-day currency when there is a currency settlement holiday for a particular margin call currency. For example, instead of a PPS Bank giving a commitment to pay GBP on a Monday which is a UK currency holiday, and making the transfer on Tuesday, an alternative open currency will be called for, e.g. USD which can be delivered on that Monday. On Tuesday LCH would return the USD and call the correct currency i.e. GBP.

Both of these components achieve a reduction in credit exposure of the PPS Banks and indeed that of LCH, since in place of a PPS Bank 'promise to pay' which takes the form of a SWIFT confirmation message the margin call is met same-day.

It should be noted that currently Clearing Members are able to cover margin obligations with non-cash and to pre-fund in their preferred currency in advance of a currency holiday should they wish to do so. These mechanisms will continue to be available to Clearing Members.

Part II: Description of Rule Changes

In support of this initiative changes are being made to the LCH Rulebook; a matrix of the changes and black-lined versions are included in the appendices of this letter:

- Procedures Section 3 (Financial Transactions);
- FCM Procedures
- Product Specific Contract Terms and Eligibility Criteria Manual; and
- FCM Product Specific Contract Terms and Eligibility Criteria Manual.

Part III: Core Principle Compliance

LCH has concluded that compliance with the Core Principles, in particular Core Principle E will not be adversely impacted by these changes.

Part IV: Public Information

LCH has posted a notice of pending certification with the CFTC and a copy of this submission on the LCH website at <http://www.lchclearnet.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 this change.

Certification

LCH hereby certifies to the Commodity Futures Trading Commission, pursuant to the procedures set forth in 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 regarding this submission please contact me at julian.oliver@lch.com

Yours sincerely,



Julian Oliver
Chief Compliance Officer

LCH Rule Submission

Appendix A

Matrix of Changes

| Procedures Section 3 (Financial Transactions) | FCM Procedures | Explanation |
|--|--|---|
| 1.3.1(g) | 3.2.1.(g) | Inserted text that sets out Clearing member requirement to maintain PPS bank accounts in London in all three major currencies i.e. EUR, GBP & USD and to meet margin calls in all of these currencies. This text also sets out the currency priority order in which calls will be made. |
| 1.3.1(h) | 3.2.1(h) | Removal of text that sets out that the Clearing House will call on the following business day after a currency settlement holiday. |
| Product Specific Contract Terms & Eligibility Criteria Manual | FCM Product Specific Contract Terms and Eligibility Criteria Manual | Explanation |
| 2.1.3 | 2.1(c)(i) | Added CHF and NOK to the 1 st bullet (sets out which currencies have a 1 day settlement lag) and removed these currencies from the 2 nd bullet (sets out which currencies have a 2 day settlement lag). |

LCH Rule Submission

Appendix B

Procedures Section 3 (Financial Transactions)



LCH.CLEARNET LIMITED

PROCEDURES SECTION 3

FINANCIAL TRANSACTIONS

CONTENTS

| Section | Page |
|---|------|
| 1. Financial Transactions..... | 1 |
| 1.1 Accounts and ledgers..... | 1 |
| 1.2 Financial Transaction Reporting | 2 |
| 1.3 Protected Payments System (PPS) | 3 |
| 1.4 Acceptable Forms of Collateral..... | 9 |
| 1.5 Distribution of Collateral..... | 10 |
| 1.6 Interest | 12 |
| 1.7 Fees..... | 13 |
| 1.8 VAT Status | 13 |
| 1.9 Participation Monies..... | 13 |
| 1.10 Clearing House Reporting | 15 |
| Schedule 1 LCH.Clearnet Bank Accounts in Hong Kong..... | 16 |

A "Banking Reports Reference Pack" can be requested from the LCH.Clearnet Client Training Team. This contains definitions and examples of each of the available reports.

Details of Collateral balances, valuations and instructions are also available using the on-line Collateral Management System (CMS).

1.3 **Protected Payments System (PPS)**

The Clearing House operates a direct debit system, known as the Protected Payments System ("**PPS**"), for the transfer of funds to and from Clearing Members. PPS is a recognised interbank payments system overseen by the Bank of England.

PPS is operated in both London ("**UK PPS**") and in the United States (where it is known as "**US PPS**"). In this Section, a day on which PPS is open is referred to as a "**working day**". The Clearing House also operates accounts in Hong Kong where Clearing Members will be mandated to hold accounts for the operation of certain Asian markets.

Clearing Members should note that the PPS (both in London and in the US) is a system for facilitating payment to the Clearing House of moneys due from Clearing Members to the Clearing House and vice versa. The giving of a commitment by a participating bank through PPS to make any payment, and the receipt of that commitment by the Clearing House, is not to be regarded as satisfaction of any payment due to the Clearing House.

Each Clearing Member remains fully responsible for the payment to the Clearing House of all moneys due to the Clearing House as required, *inter alia*, by the Clearing Membership Agreement, clearing extension documentation and the Regulations, Default Rules and Procedures. Payment is only completed when the funds have been credited for value to the relevant Clearing House bank account, and any time permitted by the relevant payment settlement system for the recall of any such payment has expired.

1.3.1 ***PPS Mandates***

(a) *Introduction*

A Clearing Member is required to maintain a PPS bank account(s) in the currency or currencies in which it makes Contributions, and for each currency in which it incurs settlements, at one or more of the bank branches participating in the PPS system in London. Different banks may be used for different currencies.

Each Clearing Member is required to maintain at least one US dollar PPS account with at least one of the US PPS banks (please refer to the following link for details): <http://www.lchclearnet.com/risk-collateral-management/collateral-management/protected-payments-system>

Clearing Members are responsible at all times for ensuring that their PPS banks accounts have sufficient funds or credit lines to be able to meet margin calls from the Clearing House.

Any bank charges connected with the holding of any PPS bank accounts or related to any activity on that account must be paid by the Clearing Member holding the relevant account PPS mandates.

Each Clearing Member is required to complete a standard form UK PPS Mandate and/or US PPS Mandate (copies are available from treasury.ops.uk@lhcclernnet.com) for each bank branch at which they wish to operate an account before clearing can commence. The original of the mandate must be signed by a person with the appropriate authority within the Clearing Member institution and then forwarded to the relevant bank. A copy must also be forwarded at the same time to the Clearing House Membership Department.

(b) *Currency Conversion*

The Clearing House supports cross currency collateral, which allows the Clearing Member to elect to use Collateral denominated in one currency in respect of initial and contingent margin liabilities calculated in another currency. Clearing Members must nominate the currency in which they wish to cover margin liabilities by prior arrangement with LCH.Clearnet Limited Treasury Operations.

(c) *Morning PPS Calls*

Clearing Members' liabilities are calculated overnight. Should the relevant liability not be covered by acceptable forms of Collateral held by the Clearing House (see Section 1.4) any shortfall is called through UK PPS with separate calls made for each currency. It is the responsibility of each Clearing Member to ensure that its UK PPS bank(s) meets all payment instructions received from the Clearing House. Confirmation of payments, as notified, must be received by the Clearing House from the relevant PPS bank(s) by 09:00 London time, or within one hour of a subsequent call, on the day on which the PPS call is made. Payments will only be recognized for this purpose if the relevant PPS bank (i) has performed its concentration function (being the transfer of net funds from the PPS bank to a central account in the name of the Clearing House), (ii) has made such payments, and (iii) any time permitted by the relevant payment settlement system for the recall of any such payment has expired.

Where payments are due to a Clearing Member, payments will be recognized as soon as payment instructions in respect of that payment have been given to a PPS bank. For this purpose, a payment instruction will only be recognised to the extent that the Clearing House has taken steps to transfer to the PPS bank any such sums as may be necessary to enable that payment instruction to be performed by the PPS bank.

(d) *Intra-day PPS Calls*

The intra-day margin call by the Clearing House is for intra-day Collateral payments. GBP, EUR or USD can be used to cover margin obligations

intra-day. Between 14:30 – 16:00 (London time) only USD will be called in London.

Normally the Clearing House will call intra-day margin through UK PPS accounts. However, where the Clearing House wishes to make such an intra-day call after UK PPS closes (16:00 London time), such a call will be made upon the Clearing Member's nominated US PPS account.

Clearing Members must designate a currency ("**GBP**", "**EUR**" or "**USD**") that will be called by default during the hours of UK PPS for each mnemonic/sub-account. Clearing Members may request a change to the default currency no later than 09:30 London time in order for the change to be undertaken the following day. Members can submit a request to change their currency at the following link: <http://www.lchclearnet.com/risk-collateral-management/collateral-management/acceptable-collateral/preferred-currency>

The Clearing House has the ability to call US dollars in respect of an intra-day margin call up until 16:00 New York time (21:00 London time).

It is noted that the Clearing House will not accept delivery of US dollar cash other than in satisfaction of an intra-day margin call after 14:00 hours New York time.

The Clearing House must receive confirmation of payment from the Clearing Member's nominated PPS bank(s) within one hour of receipt of the intra-day call by the relevant bank branch.

Failure of a bank to confirm a PPS call within one hour may result in the Clearing Member being declared in default. Late confirmation of PPS calls are reported to the regulators of the LCH.Clearnet Group.

(e) *Auto-repay*

Clearing Members may request that they are automatically repaid any excess cash balances that remain on their accounts (other than an Individual Segregated Account) at the end of each day where the relevant Service of which the Clearing Member is a member provides an auto-repay mechanism. Clearing Members must contact Treasury Operations in order to have auto-repay applied to their accounts. (treasury.ops.uk@lchclearnet.com or Tel +44 (0)20 7426 7505)

Those Clearing Members who are not on auto-repay may request that any cash balances on their accounts (other than an Individual Segregated Account) be repaid on the same day, provided that such request is received by the Clearing House by 09:30 London time.

In certain circumstances and following notification to one or more relevant Regulatory Bodies, the Clearing House may disable the auto-repay functionality for all Clearing Members of a Service. The Clearing House

will notify affected Clearing Members via Clearing member Circular in the event that the functionality is disabled.

(f) *Value Date*

Although confirmation from the banks that PPS payments will be made must be received within the deadlines set out in Section 1.3.1(d), subject to Section 1.3.1(h), all currency transactions are processed by PPS with next business day value with the exception of the following currencies: CAD, EUR, GBP and USD, which are processed with value for the same business day.

(g) *Foreign Bank Holidays*

The Clearing House has made arrangements with UK PPS banks to operate the PPS on each day (except a Saturday or Sunday) on which banks in the UK are open for business (each a “**UK Banking Day**”), including all UK Banking Days which are currency holidays in countries other than the UK.

In respect of currency holidays for EUR, GBP and USD (“Major Currencies”) Clearing Members are required to be able to meet PPS calls in all of the three Major Currencies and therefore must have an account with a PPS Bank in London in each of EUR, GBP and USD. If a Clearing Member’s preferred currency is available to be settled on a currency holiday the Clearing House will call such preferred currency. In the event that such currency is not available to be settled on a particular day the Clearing House will (i) firstly apply excess it may hold in respect of a Clearing Member and then (ii) issue calls in the following order:

(a) on a USD holiday the Clearing House will issue a call in GBP;

(b) on a GBP holiday the Clearing House will issue a call in USD;

(c) on a EUR holiday the Clearing House will issue a call in GBP;
and

(d) on a day which is both a USD holiday and a GBP holiday the Clearing House will issue a call in EUR.

The Clearing House will observe Clearing Member’s currency preferences on all days, other than currency holidays.

The Clearing House must receive confirmation that PPS payments will be made within the deadlines set out in Section 1.3.1(d).

However if:

- (i) PPS payment in a particular currency (other than AUD) is due to be made on a day (“**Payment Date**”) which is a holiday in respect

of that currency, the value date for such PPS transactions will be the first Value Date occurring after the Payment Date; and

- (ii) a PPS payment in AUD is due to be made on a Payment Date which is a holiday for such currency, the date for such PPS payment will be the second Value Date occurring after the Payment Date.

For the purposes of this section 1.3.1(g) “Value Date” means, in respect of a PPS payment in a particular currency, a day which is both (i) a business day and (ii) not a holiday for such currency.

Example: 20 August is a public holiday in the USA but not in the UK. 21 August is a normal banking day in the USA.

On 20 August, the Clearing House will issue its normal USD instructions to PPS banks, and receive confirmation in response to the PPS call; the Value Date for such call will be 21 August.

Please refer to Clearing Member Circulars for details of Clearing House opening days and currency holidays at the following link: <http://www.lchclearnet.com/news-events/members-updates/general-information>

(h) *UK Bank Holidays*

The Clearing House does not give value to any currency on a UK bank holiday, if the Clearing House is closed for business on that bank holiday. ~~PPS calls will be made on the next following business day, for the relevant currency.~~

However, the Clearing House may sometimes be open for business on a UK bank holiday – in such circumstances PPS calls will be made as normal that day. Value will be given the same day **provided that** the relevant currency centre is open for business. ~~It should be noted, however, that value for GBP is given on the next GBP business day.~~

(i) *Use of UK PPS and US PPS*

These Procedures indicate which part of the PPS system will be used in the normal course of events for making PPS calls. Generally UK PPS will be used for Morning PPS Calls (including Contributions to the Default Fund), remitting surplus cash balances to a Clearing Member, and for intra-day margin calls up to 16:00 hours London time. However Clearing Members should be aware that the Clearing House reserves the right to direct a morning PPS call or intra-day margin calls before 16:00 hours London time to a Clearing Member's US PPS account in exceptional circumstances (an "**Exceptional PPS Call**"). The Clearing House will use all reasonable commercial endeavours to notify the Clearing Member in advance of issuing any such Exceptional PPS Call.

LCH Rule Submission

Appendix C

FCM Procedures



**FCM PROCEDURES OF
THE CLEARING HOUSE**

LCH.CLEARNET LIMITED

CONTENTS

| Clause | Page |
|---|------|
| 1. FCM Clearing Member Status | 1 |
| 1.1 FCM Clearing Member Application Procedure | 1 |
| 1.2 Criteria for FCM Clearing Member Status..... | 3 |
| 1.3 Termination of FCM Clearing Member Status | 5 |
| 1.4 Net Capital..... | 5 |
| 1.5 Calculation Of Net Capital | 6 |
| 1.6 Reporting | 6 |
| 1.7 Additional Requirements..... | 8 |
| 1.8 Other Conditions | 8 |
| 1.9 Other Conditions | 9 |
| 2. Product-Specific Procedures | 10 |
| 2.1 SWAPCLEAR..... | 10 |
| Schedule 2.1A Swapclear Processing Schedule | 70 |
| Schedule 2.1B FCM Client – Partial Transfer Form..... | 71 |
| Schedule 2.1C FCM Client – Full Transfer Form..... | 74 |
| Schedule 2.1D FCM Client Transfer – Carry FCM Clearing Member Reponses Form | 78 |
| Schedule 2.1E Confidentiality, Non-Disclosure and Participation in the Default | |
| Management Group | 80 |
| 2.2 FOREXCLEAR..... | 85 |
| Schedule 2.2A FCM Client – Partial Transfer Form..... | 131 |
| Schedule 2.2B FCM Client – Full Transfer Form..... | 133 |
| Schedule 2.2C FCM Client Transfer – Carry FCM Clearing Member Reponses Form | |
| | 136 |
| Schedule 2.2D Confidentiality, Non-Disclosure and Participation in the ForexClear | |
| Default Management Group..... | 138 |
| 2.3 [RESERVED]..... | 143 |
| 2.4 NODAL | 144 |
| 3. Financial Transactions..... | 153 |
| 3.1 Accounts | 153 |
| 3.2 Protected Payments System (PPS) | 154 |
| 3.3 Acceptable Forms Of Cover..... | 159 |
| 3.4 Distribution Of Collateral..... | 161 |
| 3.5 Interest and Accommodation Charge Structure | 162 |
| 3.6 Fees..... | 166 |

| | | |
|------|---|-----|
| 3.7 | Default Fund; SwapClear Contributions | 166 |
| 3.8 | Quantifying SwapClear Contributions | 167 |
| 3.9 | Default Fund; ForexClear Contributions..... | 167 |
| 3.10 | Quantifying ForexClear Contributions..... | 168 |
| 3.11 | Default Fund Contributions and Loss Distribution Charges: FCM Nodal Clearing Service | 168 |
| 3.12 | Clearing House Reporting | 168 |
| | Schedule 3A Bank Participants in the London Protected Payments System | 169 |
| | Schedule 3B Bank Participants in the London Protected Payments System | 170 |
| | Schedule 3C Bank Participants in the US Protected Payments System..... | 172 |
| | Schedule 3D Mandate for LCH.Clearnet Limited: Clearing Operations | 173 |
| 4. | Collateral | 175 |
| 4.1 | General Information | 175 |
| 4.2 | Securities | 179 |
| 4.3 | Instructions via the CMS..... | 179 |
| 4.4 | Settlement Procedures – Securities | 179 |
| 4.5 | Triparty Service with Euroclear, Clearstream and BNY Mellon | 182 |
| 4.6 | Withholding Taxes | 184 |
| 4.7 | References | 186 |
| 4.8 | Contingency Arrangements..... | 186 |
| 4.9 | Return of Unallocated Excess and FCM Buffer..... | 186 |
| 4.10 | Collateral Value Reports | 187 |
| | Schedule 4A FCM Client Account Lodgment Form..... | 190 |
| | Schedule 4B Contingency FCM House Account Lodgment Form | 191 |
| | Schedule 4C Contingency Collateral Release Form | 192 |
| | Schedule 4D Settlement Accounts | 193 |
| | Schedule 4E Contingency Member Triparty Lodgement Form | 195 |
| | Schedule 4F Contingency Member Triparty Amendment Form..... | 196 |
| | Schedule 4G Contingency Member Triparty Closing Form | 197 |
| | Schedule 4H Contingency Member Triparty Lodgement Form | 198 |
| | Schedule 4I Contingency Member Triparty Amendment Form | 199 |
| | Schedule 4J Contingency Member Triparty Closing Form..... | 200 |
| | Schedule 4K Contingency Member Triparty Lodgement Form | 201 |
| | Schedule 4L Contingency Member Triparty Amendment Form | 202 |
| | Schedule 4M Contingency Member Triparty Closing Form..... | 203 |
| | Schedule 4N Contingency Member Triparty Lodgement Form | 204 |
| | Schedule 4O Contingency Member Triparty Amendment Form | 205 |

| | |
|--|-----|
| Schedule 4P Contingency Member Triparty Closing Form | 206 |
| 5. Business Continuity..... | 207 |
| 5.1 Recovery situations | 207 |
| 5.2 Recovery situations affecting FCM Members' Ability to Perform Clearing Activities | 207 |
| 5.3 Principal Office evacuation | 207 |
| 5.4 Clearing House data center..... | 210 |
| 5.5 Compliance with Business Continuity Testing | 211 |
| 6. Appeal Procedures..... | 212 |
| 6.1 Introduction | 212 |
| 6.2 Decisions in respect of which an appeal may be lodged | 212 |
| 6.3 Initiating an appeal | 212 |
| 6.4 The first tier appeal..... | 213 |
| 6.5 The second tier appeal | 214 |
| 6.6 Requests for review | 216 |
| 6.7 Market disorders etc. and default | 217 |
| Schedule 6A Appeal Form | 218 |
| Schedule 6B Notice of Further Appeal | 220 |
| 7. Complaints..... | 222 |
| 7.1 Introduction | 222 |
| 7.2 How to make a complaint..... | 222 |
| 7.3 Internal investigation and review by the Clearing House | 223 |
| 7.4 Referral to an independent investigator..... | 224 |
| 7.5 Procedure for dealing with the complaint | 225 |
| 7.6 Outcomes..... | 225 |
| 8. Disciplinary Proceedings..... | 227 |
| 8.1 Scope of this procedure | 227 |
| 8.2 Investigation procedure | 227 |
| 8.3 Immediate measure..... | 234 |
| 8.4 Sanctions | 234 |
| 8.5 Disputing a decision | 235 |
| 8.6 Reporting and publication | 235 |
| 8.7 Infringement of Applicable Law | 236 |

FCM Clearing Membership Agreement, clearing extension documentation and the applicable provisions of the FCM Rulebook. Payment is only completed when the funds have been credited for value to the relevant Clearing House bank account, and any time permitted by the relevant payment settlement system for the recall of any such payment has expired.

3.2.1 **PPS Mandates**

(a) *Introduction*

An FCM Clearing Member is required to maintain a PPS bank account(s) in the currency or currencies in which it makes Contributions, and for each currency in which it incurs settlements, at one or more of the bank branches participating in the PPS system in London. Different banks may be used for different currencies.

Each FCM Clearing Member is required to maintain at least one US dollar PPS account with at least one of the US PPS banks (please refer to the following link for details):

www.lchclearnet.com/risk_management/ltd/pps/

FCM Clearing Members are responsible at all times for ensuring that their PPS bank accounts have sufficient funds or credit lines to be able to meet margin calls from the Clearing House.

Any bank charges connected with the holding of any PPS bank accounts or related to any activity on that account must be paid by the FCM Clearing Member holding the relevant account PPS mandates.

The GBP non-segregated PPS account will, *inter alia*, be used to process Contributions for all services other than the ForexClear Service. For ForexClear Service, the USD non-segregated PPS account is used.

Where applicable, all PPS accounts that hold FCM Client Funds must be segregated in accordance with the FCM Regulations and the applicable provisions of the CEA and CFTC Regulations, including but not limited to Part 1, Part 22 and Part 190 of such regulations. Furthermore, PPS accounts that contain FCM Client Funds held with respect to Futures/Options Contracts may not contain FCM Client Funds held with respect to Cleared Swaps, unless permitted under the CEA or CFTC Regulations.

Each FCM Clearing Member is required to complete a standard form UK PPS Mandate and/or US PPS Mandate (copies are available from treasury.ops.uk@lchclearnet.com) for each bank branch at which they wish to operate an account before clearing can commence. The original of the mandate must be signed by a person with the appropriate authority within the FCM Clearing Member institution and

then forwarded to the relevant bank. A copy must also be forwarded at the same time to the Clearing House Membership Department.

(b) *Currency Conversion*

The Clearing House supports cross currency collateral, which allows the FCM Clearing Member to elect to use cash cover denominated in one currency in respect of initial and contingent margin liabilities calculated in another currency. FCM Clearing Members must nominate the currency in which they wish to cover margin liabilities by prior arrangement with LCH.Clearnet Limited Treasury Operations.

(c) *Morning PPS Calls*

FCM Clearing Members' liabilities are calculated overnight. Should the relevant liability not be covered by acceptable forms of Collateral held by the Clearing House (see section 3.3) any shortfall is called through UK PPS with separate calls made for each currency. It is the responsibility of each FCM Clearing Member to ensure that its UK PPS bank(s) meets all payment instructions received from the Clearing House. Confirmation of payments, as notified, must be received by the Clearing House from the relevant PPS bank(s) by 09:00 London time, or within one hour of a subsequent call, on the day on which the PPS call is made. Payments will only be recognized for this purpose if the relevant PPS bank (i) has performed its concentration function (being the transfer of net funds from the PPS bank to a central account in the name of the Clearing House) (ii) has made such payments, and (iii) any time permitted by the relevant payment settlement system for the recall of any such payment has expired.

Where payments are due to an FCM Clearing Member, payments will be recognized as soon as payment instructions in respect of that payment have been given to a PPS bank. For this purpose, a payment instruction will only be recognized to the extent that the Clearing House has taken steps to transfer to the PPS bank any such sums as may be necessary to enable that payment instruction to be performed by the PPS bank.

(d) *Intra-day PPS Calls*

The intra-day margin call by the Clearing House is for intra-day Margin payments. Only USD can be used to cover Margin requirements intra-day. Between 14:30 and 16:00 hours (London time) only USD will be called in London.

Normally the Clearing House will call intra-day margin through UK PPS accounts. However, where the Clearing House wishes to make such an intra-day call after UK PPS closes (16:00 London time), such a call will be made upon the FCM Clearing Member's nominated US PPS account.

Only USD will be called by default during the hours of UK PPS for each mnemonic/sub-account. FCM Clearing Members may request a change to the default currency no later than 09:30 London time in order for the change to be undertaken the following day. FCM Clearing Member's may submit a request to change their currency at the following link:

www.lchclearnet.com/risk_management/ltd/preferential_currency_for_intraday_margin_calls_form.asp

The Clearing House has the ability to call US dollars in respect of an intra-day margin call up until 16:00 New York time (21:00 London time).

The Clearing House must receive confirmation of payment from the FCM Clearing Member's nominated PPS bank(s) within one hour of receipt of the intra-day call by the relevant bank branch.

Failure of a bank to confirm a PPS call within one hour may result in the FCM Clearing Member being declared in default. Late confirmation of PPS calls are reported to the regulators of the LCH.Clearnet Group.

(e) *Auto repay*

FCM Clearing Members may request that they are automatically repaid any excess USD cash balances that remain on their accounts at the end of each day. FCM Clearing Members must contact Treasury Operations in order to have auto-repay applied to their accounts. (LCHOperations-Treasury@lchclearnet.com or telephone +44 (0)20 7426 7505). In certain circumstances and following notification to one or more Regulatory Bodies, the Clearing House may disable the auto-repay functionality for all FCM Clearing Members of a clearing service. The Clearing House will notify FCM Clearing Members via Clearing Member Circular in the event that the functionality is disabled. This Section 3.2.1(e) only applies to Proprietary Accounts.

(f) *Value Date*

Although confirmation from the banks that PPS payments will be made must be received within the deadlines set out in Sections 3.2.1(c) and 3.2.1(d), subject to Section 3.2.1(h), all currency transactions are processed by PPS with next business day value with the exception of the following currencies: CAD, EUR, GBP and USD, which are processed with value for the same business day.

(g) *Foreign Bank Holidays*

The Clearing House has made arrangements with UK PPS banks to operate the PPS on all UK banking days including foreign bank holidays.

In respect of currency holidays for EUR, GBP and USD (“Major Currencies”) Clearing Members are required to be able to meet PPS calls in all of the three Major Currencies and therefore must have an account with a PPS Bank in London in each of EUR, GBP and USD. If a Clearing Member’s preferred currency is available to be settled on a currency holiday the Clearing House will call such preferred currency. In the event that such currency is not available to be settled on a particular day the Clearing House will (i) firstly apply excess it may hold in respect of a Clearing Member and then (ii) issue calls in the following order:

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(a) on a USD holiday the Clearing House will issue a call in GBP;

(b) on a GBP holiday the Clearing House will issue a call in USD

(c) on an EUR holiday the Clearing House will issue a call in GBP;
and

(d) on a day which is both a USD holiday and a GBP holiday the Clearing House will issue a call in EUR.

The Clearing House will observe Clearing Member’s currency preferences on all days, other than currency holidays.

Confirmation that PPS payments will be made must be received within the deadlines set out in Sections 3.2.1(c) and 3.2.1(d). However, the value date for any PPS transactions made on a day which is a bank or public holiday in the country of that currency will be for the next business day on which both the foreign currency center and the Clearing House are open for business. This applies to GBP, CAD, EUR and USD.

Example: 20 August is a public holiday in the USA but not in the UK. 21 August is a normal banking day in the USA.

On 20 August, the Clearing House will issue its normal USD instructions to PPS banks, and receive confirmation in response to the PPS call, for value on 21 August.

Please refer to Clearing Member Circulars for details of Clearing House opening days and currency holidays at the following link:

www.lchclearnet.com/member_notices/

(h) *UK Bank Holidays*

The Clearing House does not give value to any currency on a UK bank holiday, if the Clearing House is closed for business on that bank holiday. ~~PPS calls will be made on the next following business day, for the relevant currency.~~

However, the Clearing House may sometimes be open for business on a UK bank holiday – in such circumstances PPS calls will be made as normal that day. Value will be given the same day provided that the relevant currency center is open for business. ~~It should be noted, however, that value for GBP is given on the next GBP business day.~~

(i) *Use of UK PPS and US PPS*

These FCM Procedures indicate which part of the PPS system will be used in the normal course of events for making PPS calls. Generally UK PPS will be used for Morning PPS calls (including Contributions to the default fund), remitting surplus cash balances to an FCM Clearing Member, and for making intra-day margin calls up to 16:00 London time. However FCM Clearing Members should be aware that the Clearing House reserves the right to direct a Morning PPS call or intra-day margin calls before 16:00 London time to an FCM Clearing Member's US PPS account in exceptional circumstances (an “**Exceptional PPS Call**”). The Clearing House will use all reasonable commercial efforts to notify the FCM Clearing Member in advance of issuing any such Exceptional PPS Call.

(j) *Contingency Payment Arrangements*

FCM Clearing Members are required to have contingency payment arrangements in place to ensure that they can continue to meet their margin obligations in the event of failure of their nominated PPS bank. During the application process, the Clearing House will require the applicant to provide evidence of these arrangements and will test these prior to the applicant becoming an FCM Clearing Member. The FCM Clearing Member will be required to provide evidence of their contingency payment arrangements on an ongoing basis at the Clearing House's request.

(k) *Recovery from Insolvent PPS Banks*

In the event that payment is not completed by the relevant PPS bank, due to insolvency rather than technical failure, and the affected FCM Clearing Member(s) make alternative payments, should the Clearing House make a recovery from the estate of the PPS bank, it will credit such recovery, net of costs, to the accounts of the affected FCM Clearing Members in proportion to the amount of the original missed payment.

3.3 **Acceptable Forms Of Cover**

The Clearing House accepts certain types of securities and cash in the Clearing House's prescribed form as Collateral against liabilities of the relevant FCM Clearing Member.

Please refer to the following link for further details:

LCH Rule Submission

Appendix D

Product Specific Contract Terms and Eligibility Criteria Manual

**PRODUCT SPECIFIC CONTRACT TERMS AND ELIGIBILITY CRITERIA
MANUAL**

CONTENTS

| | Page |
|--|------|
| SCHEDULE 1 REPOCLEAR | 1 |
| Part A Repoclear Contract Terms: Repoclear Contracts arising from Repoclear Transactions, Repo Trades or Bond Trades | 1 |
| Part B Product Eligibility Criteria for Registration of a RepoClear Contract..... | 8 |
| Part C Repoclear Term £GC Contract Terms: Repoclear term £GC Contracts Arising From Repoclear Term £GC Transactions Or Term £GC Trades | 20 |
| Part D Product Eligibility Criteria for Registration of a RepoClear Term £GC Contract | 27 |
| Part E RepoClear GC Contract Terms: RepoClear €GC Contracts arising from RepoClear €GC Transactions or €GC Trades | 29 |
| Part F Product Eligibility Criteria for Registration of a RepoClear €GC Contract..... | 30 |
| SCHEDULE 2 SWAPCLEAR | 31 |
| Part A Swapclear Contract Terms | 31 |
| Part B Product Eligibility Criteria for Registration of a SwapClear Contract | 46 |
| SCHEDULE 3 EQUITYCLEAR..... | 58 |
| Part A EquityClear (Equities) Contract Terms..... | 58 |
| Part B EquityClear Eligible (Equities) | 60 |
| Part C EquityClear (ccCFD) Contract Terms..... | 61 |
| SCHEDULE 4 LCH ENCLEAR | 66 |
| Part A LCH EnClear Contract Terms..... | 66 |
| Part B Product Eligibility Criteria for Registration of a LCH EnClear Contract..... | 99 |
| SCHEDULE 5 LSE DERIVATIVES MARKETS | 108 |
| Part A LSE Derivatives Markets Cleared Exchange Contract Terms arising from LSE Derivatives Markets OTC Trades..... | 108 |
| Part B Product Eligibility Criteria for Registration of an LSE Derivatives Markets OTC Trade..... | 113 |
| SCHEDULE 6 THE FOREXCLEAR REGULATIONS..... | 115 |
| Part A ForexClear Contract Terms..... | 115 |
| Part B Registration of a ForexClear Contract - Product Eligibility Criteria | 121 |

2. **Additional SwapClear Product Eligibility Criteria**

2.1 A contract must also meet the following additional criteria to be eligible as a SwapClear Transaction:

2.1.1 *Day Count Fractions*

(See Article 4.16 of the "Annex to 2000 ISDA Definitions (June 2000 Version)", Article 4.16 of the ISDA 2006 Definitions for definition)

The Clearing House will only accept the following day count fractions for vanilla interest rate swaps with constant notional principal and variable notional swaps. Day Count Fractions are applied to each deal leg independently, as communicated via the affirmed MarkitWire trade detail:

Day Count Fractions using the ISDA 2000 Definitions:

| <u>Day Count Fraction</u> | <u>MarkitWire/ FpML Code</u> |
|-------------------------------------|----------------------------------|
| 30/360 (or Bond Basis) | 30/360 |
| 30E/360 (or Eurobond Basis)..... | 30E/360 |
| Actual/360..... | ACT/360 |
| Actual/365 (Fixed) | ACT/365.FIXED |
| Actual/365 (or Actual/Actual) | ACT/365.ISDA |
| Actual/Actual (ISMA)..... | ACT/ACT.ISMA |

Day Count Fractions using the ISDA 2006 Definitions:

| <u>Day Count Fraction</u> | <u>MarkitWire/ FpML Code</u> |
|----------------------------------|----------------------------------|
| 30/360 (or Bond Basis) | 30/360 |
| 30E/360 (or Eurobond Basis)..... | 30E/360 |
| Actual/360..... | ACT/360 |
| Actual/365 (Fixed) | ACT/365.FIXED |
| Actual/Actual | ACT/ACT.ISDA |
| 30E/360 (ISDA) | 30E/360.ISDA |
| Actual/Actual (ICMA) | ACT/ACT.ICMA |

The Clearing House will only accept the following day count fractions for Forward Rate Agreements Day Count Fractions are applied to each deal leg independently, as communicated via the affirmed MarkitWire trade detail:

Day Count Fractions using the ISDA 2006 Definitions:

| <u>Day Count Fraction</u> | <u>MarkitWire/ FpML Code</u> | <u>Currency</u> |
|---------------------------|----------------------------------|---|
| Actual/365 (Fixed) | ACT/365.FIXED | PLN, GBP |
| Actual/360..... | ACT/360 | USD, EUR, CHF, DKK, JPY, NOK, SEK, CZK, HUF |

| Fraction | SWIFT Code |
|--|-------------------|
| Actual/365, Actual/Actual (See Article 4.16(b) for definition) | ACT/365 |
| Actual/365 (Fixed) (See Article 4.16(c) for definition) | AFI/365 |
| Actual/360 (See Article 4.16(d) for definition) | ACT/360 |
| 30/360,360/360, Bond Basis (See Article 4.16(e) for definition) | 360/360 |
| 30E/360 (See Article 4.16(f) for definition) | 30E/360 |

2.1.2 *Business Day Conventions*

The Business Day Convention specified in the Economic Terms must be one of the following:

Following (see Article 4.12(i) of the ISDA 2000 Definitions and Article 4.12 (i) of the ISDA 2006 Definitions for definition)

Modified Following (see Article 4.12(ii) of the ISDA 2000 Definitions and Article 4.12(ii) of the ISDA 2006 Definitions for definition)

Preceding (see Article 4.12(iii) of the ISDA 2000 Definitions and Article 4.12(iii) of the ISDA 2006 Definitions for definition)

For inflation swaps and vanilla interest rate swaps with constant notional principal SwapClear does not support trades where a different business day convention is used for:

fixed period end dates and the termination date

float period end dates and the termination date

2.1.3 *Minimum and Maximum Residual Term of the Trade (Termination date – Today)*

Trades in respect of vanilla interest rate swaps with constant notional principal and variable notional swaps are subject to a minimum and maximum Residual Term on the day they are received by SwapClear.

Minimum Residual Term of trade:

Termination date - Today \geq 1 + currency settlement lag

where currency settlement lag is:

1 day for EUR, USD, GBP, ~~and CAD~~, ~~CHF~~ and ~~NOK~~ denominated trades

2 days for JPY, ~~CHF~~, AUD, DKK, HKD, NZD, SEK, ~~NOK~~, PLN, ZAR, SAD, HUF & CZK denominated trades

Maximum Residual Term of trade:

Termination date - Today <= 3,670 days for DKK, HKD, NOK, PLN, ZAR, SGD, HUF & CZK (10 years)

Termination date - Today <= 5,495 days for NZD

Termination date - Today <= 10,970 days for AUD, CAD, CHF & SEK (30 years)

Termination date – Today <= 14,620 days for JPY (40 years)

Termination date – Today <= 18,275 days for GBP, EUR & USD (50 years)

Maximum Residual Term to Maturity for Forward Rate Agreements

The maximum residual term to maturity for forward rate agreements is as follows:

| Currency | Maximum Residual Term to Maturity |
|---|--|
| EUR, JPY, USD, GBP | 1105 days (3 years) |
| CHF, DKK, NOK, PLN, SEK, CZK, HUF | 740 days (2 years) |

The Clearing House will accept inflation swaps for registration: (a) in the case of uninterpolated indices, up to the end of the month prior to the final Reference Month; and (b) in the case of interpolated indices, up to the end of the final Reference Month.

2.1.4 *Designated Maturity*

The Designated Maturity must be no less than one month and no more than twelve months. The Clearing House will, excepting stub periods, only accept a Designated Maturity that is a whole calendar month.

2.1.5 *Calculation Periods*

(See Article 4.13 of the ISDA 2000 Definitions and Article 4.13 of the ISDA 2006 Definitions for definition.)

For vanilla interest rate swaps with constant notional principal and variable notional swaps the Clearing House will only accept non standard Calculation Periods ("**stub periods**") at either the start or end of the contract. Transactions with stub periods at both the start and end of the transaction will not be eligible as SwapClear Transactions.

For variable notional swaps the stub rate should be detailed either as a percentage (i.e. 5.5 per cent.), an interpolation (i.e. 1 month/3 months) or as a designated maturity (i.e. 1 month). Stub Rates within the Final Stub are calculated via interpolation or as a designated maturity.

For interpolated coupons, payment dates must fall between the rolled dates, according to the Modified Following business day convention, of the specified

designated maturities. Where this does not occur and extrapolation would be required, SwapClear will reject the trade.

The minimum stub period of a variable notional swap accepted by SwapClear is 1 + Currency Settlement Lag. The minimum stub rate tenor must be ≥ 1 week for IRS and basis swap and ≥ 1 month for zero coupon swaps.

SwapClear also calculates floating periods subject to IMM settlement dates as per ISDA definitions.

For Forward Rate Agreements non standard designated maturities are accepted subject to the following criteria:

Interpolated period:

The maturity date must fall between the rolled dates, according to the business day convention, of the specified designated tenors. Where this does not occur and extrapolation would be required, SwapClear will reject the trade.

SwapClear will interpolate based upon the closest indices for interpolation

Non interpolated period:

SwapClear will only support the closest index tenor to the calculated period.

LCH Rule Submission

Appendix E

FCM Product Specific Contract Terms and Eligibility Criteria Manual

FCM PRODUCT SPECIFIC CONTRACT TERMS AND
ELIGIBILITY CRITERIA MANUAL

CONTENTS

| Clause | Page |
|---|------|
| SCHEDULE 1 FCM Swapclear..... | 1 |
| Part A FCM Swapclear Contract Terms | 1 |
| Part B Product Eligibility Criteria for Registration of an FCM SwapClear Contract | 10 |
| SCHEDULE 2 [RESERVED] | 26 |
| Part A [RESERVED]..... | 26 |
| Part B [RESERVED] | 27 |
| SCHEDULE 3 FCM Forexclear | 28 |
| Part A FCM Forexclear Contract Terms..... | 28 |
| Part B Registration of an FCM ForexClear Contract - Product Eligibility Criteria | 34 |

| Instrument | Acceptable Currencies | Acceptable Indices⁸ | Types | | Maximum Residual Term | Notional Amount (Min - Max of the relevant currency unit) |
|-----------------------------|------------------------------|---|--------------|--|------------------------------|--|
| constant notional principal | | revised Consumer Price Index See Annex A (j)(i) for definition | | | | .99 |

2. Additional FCM SwapClear Product Eligibility Criteria

2.1 A contract must also meet the following additional criteria to be eligible as an FCM SwapClear Transaction:

(a) ***Day Count Fractions***

(See Article 4.16 of the "Annex to 2000 ISDA Definitions (June 2000 Version)", and Article 4.16 of the ISDA 2006 Definitions for definition)

- (i) The Clearing House will only accept the following day count fractions for vanilla interest rate swaps with constant notional principal and variable notional swaps. Day Count Fractions are applied to each deal leg independently, as communicated via the affirmed MarkitWire trade detail:

Day Count Fractions using the ISDA 2000 Definitions

| Day Count Fraction | MarkitWire/FpML Code |
|-------------------------------|-----------------------------|
| 30/360 (or Bond Basis) | 30/360 |
| 30E/360 (or Eurobond Basis) | 30E/360 |
| Actual/360 | ACT/360 |
| Actual/365 (Fixed) | ACT/365.FIXED |
| Actual/365 (or Actual/Actual) | ACT/365.ISDA |
| Actual/Actual (ISMA) | ACT/ACT.ISMA |

Day Count Fractions using the ISDA 2006 Definitions:

| Day Count Fraction | MarkitWire/FpML Code |
|-----------------------------|-----------------------------|
| 30/360 (or Bond Basis) | 30/360 |
| 30E/360 (or Eurobond Basis) | 30E/360 |
| Actual/360 | ACT/360 |
| Actual/365 (Fixed) | ACT/365.FIXED |
| Actual/Actual | ACT/ACT.ISDA |
| 30E/360 (ISDA) | 30E/360.ISDA |
| Actual/Actual (ICMA) | ACT/ACT.ICMA |

The Clearing House will only accept the following Day Count Fractions for Forward Rate Agreements. Day Count Fractions are applied to each deal leg independently, as communicated via the affirmed MarkitWire trade detail:

Day Count Fractions using the ISDA 2006 Definitions:

| Day Count Fraction | MarkitWire/FpML Code | Currency |
|---------------------------|-----------------------------|---|
| Actual/365 (Fixed) | ACT/365.FIXED | CAD, AUD, NZD, PLN, ZAR, GBP |
| Actual/360 | ACT/360 | USD, EUR, CHF, DKK, JPY, NOK, SEK, CZK, HUF |

| Fraction | SWIFT Code |
|---|-------------------|
| Actual/365, Actual/Actual <i>(See Article 4.16(b) for definition)</i> | ACT/365 |
| Actual/365 (Fixed) <i>(See Article 4.16(c) for definition)</i> | AFI/365 |
| Actual/360 <i>(See Article 4.16(d) for definition)</i> | ACT/360 |
| 30/360,360/360, Bond Basis <i>(See Article 4.16(e) for definition)</i> | 360/360 |
| 30E/360 <i>(See Article 4.16(f) for definition)</i> | 30E/360 |

(b) ***Business Day Conventions***

The Business Day Convention specified in the Economic Terms must be one of the following:

- Following (see Article 4.12 (i) of the ISDA 2000 Definitions and Article 4.12 (i) of the ISDA 2006 Definitions for definition)
- Modified Following (see Article 4.12 (ii) of the ISDA 2000 Definitions and Article 4.12(ii) of the ISDA 2006 Definitions for definition)
- Preceding (see Article 4.12 (iii) of the ISDA 2000 Definitions and Article 4.12 (iii) of the ISDA 2006 Definitions for definition)

For inflation swaps and vanilla interest rate swaps with constant notional principal SwapClear does not support trades where a different business day convention is used for:

- (i) fixed period end dates and the termination date
- (ii) float period end dates and the termination date

(c) **Minimum and Maximum Residual Term of the Trade (Termination date – Today)**

Trades in respect of vanilla interest rate swaps with constant notional principal and variable notional swaps are subject to a minimum and maximum Residual Term on the day they are received by SwapClear.

(i) Minimum Residual Term of trade:

Termination date - Today $\geq 1 +$ currency settlement lag

where currency settlement lag is:

- 1 day for EUR, USD, GBP, ~~and~~ CAD, ~~CHF~~ and ~~NOK~~ denominated trades
- 2 days for JPY, ~~CHF~~, AUD, DKK, HKD, NZD, SEK, ~~NOK~~, PLN, ZAR, SAD, HUF & CZK denominated trades

(ii) Maximum Residual Term of trade:

Termination date - Today $\leq 3,670$ days for DKK, HKD, NZD, NOK, PLN, ZAR, SAD, HUF & CZK (10 years)

Termination date - Today $\leq 10,970$ days for AUD, CAD, CHF & SEK (30 years)

Termination date – Today $\leq 14,620$ days for JPY (40 years)

Termination date – Today $\leq 18,275$ days for GBP, EUR & USD (50 years)

(iii) Maximum Residual Term to Maturity for Forward Rate Agreements

The maximum residual term to maturity for forward rate agreements is as follows:

| Currency | Maximum Residual Term to Maturity |
|---|-----------------------------------|
| EUR, JPY, USD, GBP | 1105 days (3 years) |
| AUD, CAD, CHF, DKK, NOK, NZD, PLN, SEK, ZAR, CZK, HUF | 740 days (2 years) |

The Clearing House will accept FCM SwapClear Transactions that are inflation swaps for registration: (a) in the case of uninterpolated indices, up to the end of the month prior to the final Reference Month; and (b) in the case of interpolated indices, up to the end of the final Reference Month.