

VIA CFTC PORTAL

August 14, 2024

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

LCH Limited self-certification: Listed Interest Rates clearing service rule changes

Dear Mr. Kirkpatrick,

Pursuant to Commodity Futures Trading Commission (“CFTC”) Regulation §40.6(a), LCH Limited (“LCH”), a derivatives clearing organization registered with the CFTC, is submitting for self-certification updates to its rules (“LCH Rules”) and website related to the Listed Interest Rates clearing service.

Part I: Explanation and analysis

LCH is planning to relaunch its Listed Interest Rates clearing service¹ in September 2024, clearing for the FMX Futures Exchange, a Designated Contract Market registered with the CFTC. As part of this relaunch, the initial product scope is short term interest rate (STIR) futures linked to the Secured Overnight Financing Rate (SOFR) to be available at launch, with US Treasury futures scheduled to follow in 2025.

LCH is proposing to amend the LCH Rules prior to the relaunch and to make other cleanup and conforming changes. The cumulative changes primarily relate to: (i) the introduction of FCMs clearing for affiliates (for Listed Interest Rates only); (ii) the treatment of losses where a member participates in portfolio margining but is not a Listed Rates member; and (iii) the resizing of the Listed Rates portion of the Default Fund.

LCH will make these changes to the General Regulations, FCM Regulations, FCM Procedures, Procedures Section 1 and the Default Rules. In addition, LCH will update certain portions of the LCH website with respect to Listed Rates fees, Listed Rates Members default fund contributions, and the risk management process for the relaunched Listed Interest Rates clearing service.

Part II: Description of the rule changes*General Regulations*

In the General Regulations, LCH is revising the definition of a “Joint Rates Service Clearing Member” to allow for a SwapClear Clearing Member to participate in portfolio margining even when they are

¹ LCH's Listed Interest Rates clearing service previously cleared certain interest rate derivatives denominated in EUR and GBP listed on the CurveGlobal Exchange prior to its closure in 2022.



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not a Listed Rates Member (a “PM Eligible SCM”), allowing them to portfolio margin futures and swaps without having to fully join the Listed Interest Rates service. LCH will also add “PM Eligible SCM” as a new defined term to mean an SCM that clears FCM Listed Interest Rates Contracts through the Proprietary Account of an FCM Listed Interest Rates Clearing Member that controls, is controlled by, or is under common control with, such SCM, provided that such SCM is neither a Listed Interest Rates Clearing Member nor an FCM Clearing Member.

FCM Regulations

In the FCM Regulations, LCH will add “FCM Omnibus Listed Interest Rates Portfolio Margining Client Account with LCH” as a new defined term and will revise the definition of “FCM Omnibus Listed Interest Rates Client Account with LCH” and “FCM Omnibus Futures Client Account with LCH”. These changes are being made to clarify the different omnibus account structures available to FCMs for the benefit of their clients. LCH will also add “PM Eligible SCM” as a new defined term to align with the definition provided in the General Regulations.

FCM Procedures

In the FCM Procedures, LCH is making several amendments to Section 2.1.24 (FCM Portfolio Margining Service) to clarify the eligibility criteria, portfolio margining processes, transfer of offsetting contracts and the treatment of portfolio margined contracts. Section 2.3 (Listed Interest Rates) will also be amended to clarify how LCH processes trades that are presented outside of the trade acceptance hours and with respect to the requirement for Listed Rates FCM Clearing Members to provide end-of-day customer gross margin positions. LCH will also update Section 2.3.4 (Accounts), Section 2.3.5 (Margin and Collateral) and Section 2.3.6 (Trade and Position Management) to reflect the changes relevant to those participating in the Listed Interest Rate service. LCH will make other cleanup and conforming amendments to the FCM Procedures to remove references and sections that are not relevant to the relaunched Listed Interest Rates clearing service.

Procedures Section 1

In Procedures Section 1, LCH is clarifying that only Clearing Members that are incorporated under the laws of any state of the United States or under the federal laws of the United States are eligible to be Listed Interest Rates Clearing Members. LCH is not proposing any other changes to the Procedures.

Default Rules

In the Default Rules, there are additional references throughout to the proprietary account for the FCM Clearing Member and the FCM Affiliate. In schedule 2 (Rates Service DMP Annex), there are updates to definitions and clarifications related to portfolio splitting, Market Losses and Auction Losses processes. In the Rates Service Default Fund Supplement – SwapClear, there are updated definitions to include reference to “PM Eligible SCM”. In the Rates Service Default Fund Supplement – Listed Interest Rates, there are new definitions and updates to the Listed Interest Rate Contributions to the Rates Default Fund sub section to reflect changes relevant for the relaunch of the service including the new minimum contribution to the default fund for a Listed Interest Rate clearing member.

LCH Website

LCH will also update portions of its website to support the Listed Rates relaunch. Specifically, LCH will clarify that a zero fee charge will be applied to all cleared futures contracts for the first year following the launch of FMX as a Listed Rates Exchange, and that LCH will further review the fee structure following this period and prior to September 2025. LCH will also clarify that the Listed Rates initial margin model employed for the service will be calibrated to a 99% Value at Risk (VAR) (25th worst case loss) model and that the initial margin floor will remain unchanged at a 99% confidence



level. The website will also specify the minimum default fund contributions of a Listed Interest Rate Member.

Changes to the LCH Rules are included as **Appendices I - V** in black line form.

These changes will be effective not earlier than September 9, 2024.

Part III: Core Principle Compliance

LCH has reviewed the changes to the LCH Rules against the requirements of the Core Principles and finds it will continue to comply with all requirements and standards set forth therein. Specifically, these changes have potential relevance to Core Principles G (Default Rules and Procedures) and L (Public Information).

In respect of Core Principle G (§39.16) on Default Rules and Procedures, changes described in this filing do not impact LCH's approach to default management for the Listed Interest Rates clearing service, including its overall rules and procedures which continue to be designed to allow for the efficient, fair and safe management of events during which Clearing Members may become insolvent or default on obligations to LCH.

The changes described in this filing also ensure that LCH meets the objectives of Core Principle L, including that, in addition to the specified requirements of CFTC Regulation §39.21, LCH makes available any information that is relevant to participation in the clearing and settlement activities of LCH, including the fees charged and the risk management approach. LCH considered its public information requirements and believes updating the LCH website to include these clarifications meets the requirements of Core Principle L.

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: <https://www.lch.com/resources/rulebooks/proposed-rule-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 proposal.

Certification

LCH hereby certifies to the CFTC, pursuant to the procedures set forth in CFTC Regulation §40.6, that the attached submission complies with the Commodity Exchange Act, as amended, and the regulations promulgated thereunder.

Should you have any questions, please contact me at lavannyan.mahalingam@lseg.com.



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Yours sincerely,

Lavannyan Mahalingam
Regulatory Advisor
LCH Limited



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Appendix I
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**GENERAL REGULATIONS OF
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“ISA Port”	means a port of the Contracts and Account Balance held in a Custodial Segregated Account opened by a Clearing Member with the Clearing House in respect of a Custodial Segregated Client to an Individual Segregated Account opened for such Clearing Client by a Backup Clearing Member in accordance with the Default Rules and the relevant Collateral Management Agreement
"IRS FCM SwapClear Contract"	has the meaning assigned to it in the FCM Regulations
"IRS SwapClear Contract"	means a SwapClear Contract of the type of Contracts which are identified as being IRS SwapClear Contracts in the Product Specific Contract Terms and Eligibility Criteria Manual, which includes, in the case of the Default Rules (including the Rates Service DMP Annex but excluding, for the avoidance of doubt, the Client Clearing Annex), the FCM Default Fund Agreement and any other document, rule or procedure as specified by the Clearing House from time to time, an IRS FCM SwapClear Contract
"ISDA Definitions"	has the meaning assigned to it in Section 1 of Part A of Schedule 2 of the Product Specific Contract Terms and Eligibility Criteria Manual
"Joint Rates Service Clearing Member"	means, for purposes of the Portfolio Margining Service, either: (i) a clearing member who is both a SwapClear Clearing Member and a Listed Interest Rates Clearing Member; or (ii) a PM Eligible SCM
"Key Tenors"	means the Key Tenors as set out in the Inflation Swaps Operational Specifications
"Key Tenors Market Data"	has the meaning assigned to it in Regulation 60A(1)
"LCH Group"	means the group of undertakings consisting of LCH Limited, LCH Group Holdings Limited, LCH Service Company Limited, SwapAgent Limited and Banque Centrale de Compensation S.A. trading as LCH SA. (any references to a " member " of LCH Group Holdings Limited within these Regulations is to be construed accordingly)
"LCIA Rules"	means the LCIA Arbitration Rules of The London Court of International Arbitration

“Overnight Funding Account”	means a sub-account of the Proprietary Account of a SwapClear Clearing Member opened for the purpose of recording Overnight Funding Collateral
“Overnight Funding Collateral”	means an amount of Collateral that: <ul style="list-style-type: none"> (i) is intended to be used to support the registration of, or to meet any other margin requirements in connection with, SwapClear Contracts in the Proprietary Account of a SwapClear Clearing Member; and (ii) the Clearing House designates as “Overnight Funding Collateral”.
"Own Resources Provision"	means Article 35 of Commission Delegated Regulation (EU) No 153/2013 of 19 December 2012 supplementing Regulation (EU) No 648/2012 of the European Parliament and of the Council with regard to regulatory technical standards on requirements for central counterparties or any law, regulation, rule, official directive or guideline (having the force of law) which replaces, supplements, modifies, amends or varies such provision
“Over-25 NDF Transaction”	means a ForexClear NDF Transaction that has a notional amount greater than USD 25 million
"Participating FXCCM"	has the meaning assigned to it in Section 1.3.3 of Section 2I of the Procedures
“Permitted Transfers”	has the meaning ascribed to it in Section 2C or Section 2I of the Procedures, as applicable
<u>"PM Eligible SCM"</u>	<u>means an SCM that clears FCM Listed Interest Rates Contracts through the Proprietary Account of an FCM Listed Interest Rates Clearing Member that controls, is controlled by, or is under common control with, such SCM, provided that such SCM is neither a Listed Interest Rates Clearing Member nor an FCM Clearing Member</u>
"Portfolio Margined Contracts"	means any Listed Interest Rates Contracts recorded in an account of a Portfolio Margining Clearing Member related to SwapClear Business following the operation by the Clearing House of the Portfolio Margining Arrangements
"Portfolio Margining Clearing Member"	means a Joint Rates Service Clearing Member who has opted in to the Portfolio Margining Service in accordance with Section 2C of the Procedures



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FCM REGULATIONS OF THE CLEARING HOUSE

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FCM Listed Interest Rates Clearing Member to register Unallocated FCM Listed Interest Rates Contracts.

“FCM Listed Interest Rates Suspension Account” means either an FCM Listed Interest Rates Client Suspension Account or an FCM Listed Interest Rates Affiliate Suspension Account.

“FCM Listed Interest Rates Transaction” means any transaction entered into between two Executing Parties for purposes of having at least one side of such transaction registered with the Clearing House as an FCM Listed Interest Rates Contract, and the other side of such transaction registered with the Clearing House as either an FCM Listed Interest Rates Contract or a Non-FCM Listed Interest Rates Contract.

“FCM Omnibus Client Account with LCH” means either an FCM Omnibus Swaps Client Account with LCH, an FCM Omnibus Futures Client Account with LCH, or an FCM Omnibus Foreign Futures Client Account with LCH.

“FCM Omnibus Foreign Futures Client Account with LCH” means an FCM Omnibus Listed Interest Rates (Foreign Futures) Client Account with LCH.

“FCM Omnibus ForexClear Client Account with LCH” means an omnibus account maintained on the books of the Clearing House in the name of an FCM Clearing Member for the benefit of its FCM Clients, in which all FCM ForexClear Contracts cleared by such FCM Clearing Member on behalf of such FCM Clients, and all associated Collateral and Margin, will be reflected on the books of the Clearing House. Such FCM Omnibus ForexClear Client Account with LCH will not have attributed to it any FCM Contracts or Margin other than in connection with FCM ForexClear Contracts. Each FCM Omnibus ForexClear Client Account with LCH is a book-entry account, the associated Collateral of which is held in the LCH Swaps Client Segregated Depository Account. The Clearing House will establish FCM Client Sub-Accounts within each FCM Omnibus ForexClear Client Account with LCH.

“FCM Omnibus Futures Client Account with LCH” means an FCM Omnibus Listed Interest Rates ~~(Futures)~~ Client Account with LCH [and/or an FCM Omnibus Listed Interest Rates Portfolio Margining Client Account with LCH.](#)

“FCM Omnibus Listed Interest Rates (Foreign Futures) Client Account with LCH” means an omnibus account maintained on the books of the Clearing House in the name of an FCM Clearing Member for the benefit of its FCM Clients, in which all FCM Listed Interest Rates Contracts executed on a Rates Exchange that is a foreign board of trade and cleared by such FCM

Clearing Member on behalf of such FCM Clients, and all associated Collateral and Margin, will be reflected on the books of the Clearing House. Such FCM Omnibus Listed Interest Rates (Foreign Futures) Client Account with LCH will not have attributed to it any FCM Contracts or Margin other than in connection with FCM Listed Interest Rates Contracts executed on a Rates Exchange that is a foreign board of trade. Each FCM Omnibus Listed Interest Rates (Foreign Futures) Client Account with LCH is a book-entry account, the associated Collateral of which is held in the LCH Foreign Futures Client Depository Account.

“FCM Omnibus Listed Interest Rates (~~Futures~~) Client Account with LCH”

means an omnibus account maintained on the books of the Clearing House in the name of an FCM Clearing Member for the benefit of its FCM Clients, in which ~~all~~the FCM Listed Interest Rates Contracts executed on a Rates Exchange that is a designated contract market and cleared by such FCM Clearing Member on behalf of such FCM Clients and that have been designated by such FCM Clearing Member to be recorded in such account, and all associated Collateral and Margin, will be reflected on the books of the Clearing House. Such FCM Omnibus Listed Interest Rates (~~Futures~~) Client Account with LCH will not have attributed to it any FCM Contracts or Margin other than in connection with FCM Listed Interest Rates Contracts executed on a Rates Exchange that is a designated contract market. Each FCM Omnibus Listed Interest Rates (~~Futures~~) Client Account with LCH is a book-entry account, the associated Collateral of which is held in the LCH Futures Client Depository Account.

“FCM Omnibus Listed Interest Rates Portfolio Margining Client Account with LCH”

means an omnibus account maintained on the books of the Clearing House in the name of an FCM Clearing Member for the benefit of its FCM Clients, in which the FCM Listed Interest Rates Contracts executed on a Rates Exchange that is a designated contract market and cleared by such FCM Clearing Member on behalf of such FCM Clients and that have been designated by such FCM Clearing Member to be recorded in such account, and all associated Collateral and Margin, will be reflected on the books of the Clearing House. Such FCM Omnibus Listed Interest Rates Portfolio Margining Client Account with LCH will not have attributed to it any FCM Contracts or Margin other than in connection with FCM Listed Interest Rates Contracts executed on a Rates Exchange that is a designated contract market. Each FCM Omnibus Listed Interest Rates Portfolio Margining Client Account with LCH is a book-entry

[account, the associated Collateral of which is held in the LCH Futures Client Depository Account.](#)

“FCM Omnibus SwapClear Client Account with LCH”	means an omnibus account maintained on the books of the Clearing House in the name of an FCM Clearing Member for the benefit of its FCM Clients, in which all FCM SwapClear Contracts cleared by such FCM Clearing Member on behalf of such FCM Clients, and all associated Collateral and Margin, will be reflected on the books of the Clearing House. Such FCM Omnibus SwapClear Client Account with LCH will not have attributed to it any FCM Contracts or Margin other than in connection with FCM SwapClear Contracts. Each FCM Omnibus SwapClear Client Account with LCH is a book-entry account, the associated Collateral of which is held in the LCH Swaps Client Segregated Depository Account. The Clearing House will establish FCM Client Sub-Accounts within each FCM Omnibus SwapClear Client Account with LCH.
“FCM Omnibus Swaps Client Account with LCH”	means either an FCM Omnibus SwapClear Client Account with LCH or an FCM Omnibus ForexClear Client Account with LCH.
“FCM Option Contract”	means an FCM Exchange Contract or an FCM Listed Interest Rates Contract that is a contract for an Option.
“FCM Portfolio Margined Contract”	has the meaning assigned to it in the FCM Procedures.
“FCM Portfolio Margining Arrangements”	has the meaning assigned to it in the FCM Procedures.
“FCM Portfolio Margining Calculation Tool”	has the meaning assigned to it in the FCM Procedures.
“FCM Portfolio Margining Eligibility Criteria”	has the meaning assigned to it in the FCM Procedures.
“FCM Portfolio Margining Eligible FCM Listed Interest Rates Contract”	means those FCM Listed Interest Rates Contracts meeting the eligibility criteria to be FCM Portfolio Margined Contracts as set out from time to time in the FCM Product Specific Contract Terms and Eligibility Criteria Manual.
“FCM Portfolio Margining Request”	has the meaning assigned to it in the FCM Procedures.
“FCM Portfolio Margining Service”	has the meaning assigned to it in the FCM Procedures.

in the FCM Exchange Contract or the FCM Listed Interest Rates Contract or on the date agreed between the parties.

<u>“PM Eligible SCM”</u>	<u>has the meaning assigned to it in the General Regulations.</u>
“Portfolios”	has the meaning assigned to it in either (i) the Rates Service DMP Annex of the Default Rules or (ii) the ForexClear DMP Annex of the Default Rules, as applicable.
“Porting Collateral”	has the meaning assigned to it in FCM Regulation 13(a)
“Porting Contracts”	has the meaning assigned to it in FCM Regulation 13(a)
“Post-Allocation Clearing Member”	means the FCM Clearing Member or Clearing Member associated with a Client Account, FCM Client Sub-Account, Proprietary Account, FCM Omnibus Futures (or Foreign Futures) Client Account with LCH, or FCM Affiliate Account to which part or all of an Unallocated FCM SwapClear Contract, Unallocated FCM ForexClear Contract or Unallocated FCM Listed Interest Rates Contract, as the case may be, is to be allocated pursuant to an Allocation Notice or FCM Regulation 49(q), as the case may be.
“Pre-Allocation FCM Clearing Member”	has the meaning assigned to it in FCM Regulation 46(o)(i), FCM Regulation 49(q)(i) or FCM Regulation 52(g)(i), as the case may be.
“Post-Multilateral Compression Contracts”	means, in relation to a Compression Proposal, the FCM SwapClear Contracts or Non-FCM SwapClear Contracts, as applicable, registered as a result of Multilateral Compression in accordance with such Compression Proposal.
“Pre-Allocation Executing Party” or “Account Manager Executing Party”	means an Executing Party, including an Account Manager Executing Party, which is not an FCM Clearing Member and which is authorized to present or submit Unallocated FCM SwapClear Transactions, Unallocated FCM ForexClear Transactions and/or Unallocated FCM Listed Interest Rates Transactions on its own behalf or on behalf of one or more FCM Clients or FCM Affiliates.
“Premium”	means the consideration for the selling of an Option payable by the Buyer in accordance with these FCM Regulations and the FCM Procedures.
“Price”	means, in the case of an FCM Contract, the price calculated by the Clearing House in accordance with the FCM Regulations and the FCM Procedures.



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(Modified)



FCM PROCEDURES OF THE CLEARING HOUSE

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equivalent in each jurisdiction, which, if applicable, shall be payable by FCM Clearing Members at the applicable rate in force at the given time.

2.1.23 *[Reserved.]*

2.1.24 *FCM Portfolio Margining Service*

(a) *Introduction*

The Clearing House offers an optional service (“**FCM Portfolio Margining Service**”) that provides portfolio-margining functionality in respect of pairs of accounts that are held in the FCM Listed Interest Rates Clearing Service, on the one hand, and either the FCM SwapClear Clearing Service or the SwapClear Clearing Service, on the other, by transferring FCM Portfolio Margining Eligible FCM Listed Interest Rates Contracts between accounts in each Service (such transferred FCM Portfolio Margining Eligible FCM Listed Interest Rates Contracts, “**FCM Portfolio Margined Contracts**”).

~~A list of FCM Portfolio Margining Eligible FCM Listed Interest Rates Contracts is published on the Clearing House's website from time to time.~~

The availability of the FCM Portfolio Margining Service may vary by Rates Exchange. The Clearing House publishes a list of the Rates Exchange(s) for which the FCM Portfolio Margining Service is available, as well as a list of the FCM Portfolio Margining Eligible FCM Listed Interest Rates Contracts at such Rates Exchange(s), on its website from time to time.

An FCM Clearing Member must opt-in to the FCM Portfolio Margining Service in accordance with the procedure set out in paragraph 2.1.24(b) below and meet the FCM Portfolio Margining Eligibility Criteria (as defined below) in order to benefit from the portfolio-margining functionality provided by the service. However, it should be noted that, regardless of whether or not an FCM Clearing Member opts in, the FCM SwapClear Clearing Service and the FCM Listed Interest Rates Clearing Services share a common default fund. Accordingly, the risk profile of participating in either one of such Services may be impacted by other FCM Clearing Members participating in the other such Service. In particular, the resources of an FCM Clearing Member that is a member of the FCM SwapClear Clearing Service and the FCM Listed Interest Rates Clearing Services will be made available to cover the Clearing House's losses in a different manner to those of an FCM Clearing Member that is only a member of one of those Services, regardless of whether that FCM Clearing Member opts-in to the FCM Portfolio Margining Service. FCM Clearing Members should therefore familiarise themselves with the provisions of the FCM Rulebook and the Default Rules.

(b) *Opt-In Procedure*

- (A) FCM Clearing Member Status – Opt In. An FCM Clearing Member wishing to opt-in to the FCM Portfolio Margining Service in respect of one or more FCM Clients (each, a “**Nominated FCM Client**”) and/or one or more FCM Affiliates (each, a “**Nominated FCM Affiliate**”) must submit a written request to the Clearing House, using the appropriate form which can be obtained from the Clearing House's Membership team (an “**FCM Portfolio Margining Request**”). For the avoidance of doubt, the applicant FCM Clearing Member must submit a further FCM Portfolio Margining Request when it wishes the FCM Portfolio Margining Service to apply in respect of additional Nominated FCM Clients and/or Nominated FCM Affiliates.
- (B) Assessment of the FCM Portfolio Margining Request. Upon receipt of an FCM Portfolio Margining Request, the Clearing House will assess whether the eligibility criteria set out at paragraph 2.1.24(c) below (the “**FCM Portfolio Margining Eligibility Criteria**”) are met. The applicant FCM Clearing Member will provide such information to the Clearing House as the Clearing House may, in its absolute discretion, request, including such information as is required to enable the Clearing House to make the necessary assessments in respect of an FCM Portfolio Margining Request.
- (C) Activation of the FCM Portfolio Margining Service. Following a determination by the Clearing House that the FCM Portfolio Margining Eligibility Criteria are met, the Clearing House shall:
- (A) notify the applicant FCM Clearing Member; and
 - (B) activate the FCM Portfolio Margining Arrangements described in paragraph 2.1.24(d) below in respect of the Nominated FCM Clients and/or FCM Affiliates.

The Clearing House will endeavour to activate the FCM Portfolio Margining Arrangements within five business days following the determination by the Clearing House that the FCM Portfolio Margining Eligibility Criteria are met, but owes no duty or obligation to the applicant FCM Clearing Member to do so.

Furthermore, notwithstanding the foregoing, the Clearing House may, in its sole discretion, refuse to provide the FCM Portfolio Margining Service (i) to an applicant FCM Clearing Member or (ii) in respect of one or more Nominated FCM Clients or Nominated FCM Affiliates where it considers it appropriate to do so.

- (D) Opt-Out Procedure. In the event that an FCM Clearing Member wishes to terminate the FCM Portfolio Margining Service in respect of one or more Nominated FCM Clients and/or Nominated FCM Affiliates, it may do so by giving written notice to the Clearing House. The FCM Clearing Member shall identify clearly the Nominated FCM Client(s) and/or Nominated FCM ~~Affiliates~~Affiliate(s) to which the termination is intended to apply. The termination shall become effective on the date on which the Clearing House confirms to the relevant FCM Clearing Member that the FCM Portfolio Margining Service has been terminated in respect of the relevant Nominated FCM Client(s) and/or Nominated FCM Affiliate(s). In this regard, the Clearing House will endeavour to terminate the FCM Portfolio Margining Arrangements within five business days following receipt of written notice from the FCM Clearing Member, but owes no duty or obligation to the relevant FCM Clearing Member to do so.

In order to prevent abuse of the FCM Portfolio Margining Service, following the termination of the FCM Portfolio Margining Service in respect of a Nominated FCM Client or a Nominated FCM Affiliate, an FCM Clearing Member will not be entitled to submit an FCM Portfolio Margining Request in respect of the same Nominated FCM Client or Nominated FCM Affiliate for a period of 30 calendar days following termination of the FCM Portfolio Margining Service in respect of such Nominated FCM Client or Nominated FCM Affiliate.

(c) *FCM Portfolio Margining Eligibility Criteria*

- (A) Eligible FCM Clearing Members. For an FCM Clearing Member to offer the FCM Portfolio Margining Service to its FCM Clients, the FCM Clearing Member must be an FCM Joint Rates Service Clearing Member and must have an FCM Omnibus Listed Interest Rates Portfolio Margining Client Account with LCH. For an FCM Clearing Member to offer the FCM Portfolio Margining Service to its FCM Affiliates, it must be approved to participate in the FCM Listed Interest Rates Clearing Service.
- (B) Eligible FCM Clients and Eligible FCM Affiliates. In order to be eligible for the FCM Portfolio Margining Service: (i) a Nominated FCM Client must receive FCM SwapClear Clearing Services and FCM Listed Interest Rates Clearing Services from the same FCM Clearing Member; and (ii) a Nominated FCM Affiliate must ~~receive~~be a PM Eligible SCM whose FCM Listed Interest Rates Contracts are recorded to an FCM Affiliate Individual Listed Interest Rates Account of the FCM Listed Interest Rates Clearing ~~Services from the applicant FCM Clearing Member and must itself be approved to participate in~~

~~the SwapClear Clearing Service as a SwapClear Clearing Member~~Member to which it is affiliated.

- (C) FCM Client and FCM Affiliate Consent. The applicant FCM Clearing Member must confirm to the Clearing House (in the form of a written representation) that: (i) each Nominated FCM Client has provided its informed consent to the operation of the FCM Portfolio Margining Service in respect of its positions in FCM SwapClear Contracts and FCM Portfolio Margining Eligible FCM Listed Interest Rates Contracts; and (ii) each Nominated FCM Affiliate has provided its informed consent to the operation of the FCM Portfolio Margining Service in respect of its positions in SwapClear Contracts and FCM Portfolio Margining Eligible FCM Listed Interest Rates Contracts.
- (D) Recent Termination. FCM Portfolio Margining Arrangements in respect of the Nominated FCM Client or Nominated FCM Affiliate, as relevant, have not, in the last 30 calendar days, been terminated in accordance with paragraph 2.1.24(b)(D) above.
- (E) Restrictions. For the avoidance of doubt, it is not possible to apply the FCM Portfolio Margining Service:
- (A) to Nominated FCM Clients or Nominated FCM Affiliates that are not the same legal entity; or
- (B) between any positions ~~held~~recorded in (i) an applicant FCM Clearing Member's Proprietary Account and ~~any positions recorded in~~(ii) any FCM Affiliate Account or any FCM Omnibus Client Account with LCH of such applicant FCM Clearing Member.
- (d) *FCM Portfolio Margining Arrangements*
- (A) FCM Portfolio Margining Calculation Tool. The Clearing House has developed a risk management tool that identifies portfolio-margining opportunities as between: (i) FCM SwapClear Contracts and FCM Portfolio Margining Eligible FCM Listed Interest Rates Contracts held on behalf of the same Nominated FCM Client; and (ii) SwapClear Contracts and FCM Portfolio Margining Eligible FCM Listed Interest Rates Contracts held on behalf of the same Nominated FCM Affiliate ("**Portfolio Margining Calculation Tool**"). FCM Clearing Members participating in the FCM Portfolio Margining Service will receive certain information in relation to the operation of the FCM Portfolio Margining Service, as described in more detail in paragraph 2.1.24(e) below.

A list of FCM Portfolio Margining Eligible FCM Listed Interest Rates Contracts is published on the Clearing House's website from time to time.

- (B) FCM Portfolio Margining Process.
- (A) At a predetermined time following the close of the FCM Listed Interest Rates Clearing Services on each business day, the Clearing House will run the FCM Portfolio Margining Calculation Tool. The FCM Portfolio Margining Calculation Tool will identify: (i) in respect of each Nominated FCM Client, any off-setting positions between FCM SwapClear Contracts and FCM Portfolio Margining Eligible FCM Listed Interest Rates Contracts, including any FCM Portfolio Margining Eligible FCM Listed Interest Rates Contracts that are FCM Portfolio Margined Contracts (the “**Identified Off-Setting FCM Listed Interest Rates Contracts**”) and (ii) in respect of each Nominated FCM Affiliate, any off-setting positions between SwapClear Contracts and Identified Off-Setting FCM Listed Interest Rates Contracts.
- (B) The Clearing House will make reasonable efforts to notify the FCM Clearing Members participating in the FCM Portfolio Margining Service of any interruptions to the availability of the FCM Portfolio Margining Calculation Tool on a given business day, provided that the Clearing House is, or reasonably ought to be, aware of any such interruptions prior to the operation of the FCM Portfolio Margining Calculation Tool on such business day.
- (C) ~~(B)~~ The FCM Portfolio Margining Calculation Tool is a risk management tool that is not designed to provide FCM Clearing Members participating in the FCM Portfolio Margining Service with optimal margining treatment or reduce margin calls. Accordingly, the Clearing House makes no representations or assurances as to the impact of the FCM Portfolio Margining Calculation Tool on a participating FCM Clearing Member’s margin calls. ~~Furthermore, nor does~~ the Clearing House make any representation or assurance as to the availability or operation of the FCM Portfolio Margining Calculation Tool.
- (D) The Clearing House accepts no liability in respect of the provision, availability, or operation of the FCM Portfolio Margining Service of the FCM Portfolio Margining Calculation Tool. The provision, availability, and operation of the FCM Portfolio Margining Calculation Tool is subject to FCM Regulation 44.

- (C) Transfer of Identified Off-Setting FCM Listed Interest Rates Contracts. Once identified in accordance with subparagraph (d)(ii)(A) above:
- (A) any Identified Off-Setting FCM Listed Interest Rates Contracts that are not FCM Portfolio Margined Contracts will be transferred ~~from the relevant FCM Omnibus Listed Interest Rates Client Account with LCH to:~~ (i) in respect of a Nominated FCM Client, from the relevant FCM Omnibus Listed Interest Rates Portfolio Margining Client Account with LCH to the relevant FCM Client Sub-Account of the FCM Omnibus SwapClear Client Account with LCH or (ii) in respect of a Nominated FCM Affiliate, from the relevant FCM Affiliate Individual Listed Interest Rates Account to the relevant Proprietary Account of such Nominated FCM Affiliate, at which point they will become FCM Portfolio Margined Contracts;
- (B) any FCM Portfolio Margined Contracts that are not identified as Identified Off-Setting FCM Listed Interest Rates Contracts as part of the relevant cycle, will be transferred ~~from:~~ (i) in respect of a Nominated FCM Client, from the relevant FCM Client Sub-Account of the FCM Omnibus SwapClear Client Account with LCH to the relevant FCM Omnibus Listed Interest Rates Portfolio Margining Client Account with LCH or (ii) in respect of a Nominated FCM Affiliate, from the relevant Proprietary Account of such Nominated FCM Affiliate, to the relevant FCM Omnibus Affiliate Individual Listed Interest Rates Client Account with LCH, at which point they will cease to be FCM Portfolio Margined Contracts; and
- (C) the Clearing House's records will evidence the time of the transfers referred to in (A) and (B) above.
- (D) Treatment of FCM Portfolio Margined Contracts.
- (A) FCM Portfolio Margined Contracts in respect of a Nominated FCM Client ~~will continue to~~ shall be treated as FCM SwapClear Contracts and shall, for the avoidance of doubt, be treated as part of the Cleared Swaps Account Class for purposes of Part 190 of the CFTC Regulations and Section 4d(f) of the CEA. For all other purposes, FCM Portfolio Margined Contracts will be treated as FCM Listed Interest Rates Contracts: ~~FCM Portfolio Margined~~ (in respect of a Nominated FCM Client) or as Listed Interest Rates Contracts (in

respect of a Nominated FCM Affiliate ~~will be treated as Listed Interest Rates Contracts~~).

- (B) For the avoidance of doubt, FCM Portfolio Margined Contracts are not eligible for compression runs.
- (C) For so long as an FCM Listed Interest Rates Contract is an FCM Portfolio Margined Contract, any lifecycle events in connection with such FCM Portfolio Margined Contract, including trade transfer, position transfer and give-ups, shall be suspended.
- (D) FCM Portfolio Margined Contracts and associated offsetting FCM SwapClear Contracts (in respect of a Nominated FCM Client) or offsetting SwapClear Contracts (in respect of a Nominated FCM Affiliate) are not eligible for transfer. An FCM Clearing Member that wishes to transfer an FCM Portfolio Margined Contract and associated off-setting FCM SwapClear Contract (in respect of a Nominated FCM Client) or offsetting SwapClear Contract (in respect of a Nominated FCM Affiliate) must reverse the FCM Portfolio Margining Process for such Contracts prior to, and as a precondition to, the transfer of such Contracts.
- (E) A Nominated FCM Affiliate with FCM Portfolio Margined Contracts in its Proprietary Account must, in the event that its nominating FCM Clearing Member is a Defaulter, liquidate such FCM Portfolio Margined Contracts in the manner and within the timeframe required by the Clearing House. Failure to comply with the Clearing House's instructions in such circumstances shall constitute a failure by the Nominated FCM Affiliate to perform its obligations as a SwapClear Clearing Member.

(e) *Portfolio Margining Reports*

The Clearing House will provide each FCM Clearing Member participating in the FCM Portfolio Margining Service details of the transfers described in paragraph 2.1.24(d)(C) above once each business day.

thereof in his possession or control, including all abstracts, notes, drawings and other papers, programs and records incorporating any of that Confidential Material, or shall destroy such information and shall certify to the Clearing House in writing that it has done so, **provided that** the ForexClear DMG Member is permitted to retain a copy thereof to comply with Applicable Law.

11. Warranty and representation

11.1 The FXCCM represents and warrants that it will procure that:

(a) the Nominating FXCCM and the ForexClear DMG Member's employer (if different) are aware of the obligations of confidentiality arising out of this Agreement; and

(b) nothing in this schedule 2.2D will cause the ForexClear DMG Member to breach any duty or obligation (whether arising pursuant to contract or otherwise) which he owes to the Nominating FXCCM or to his employer, if different, or any other contract counterparty of the ForexClear DMG Member.

12. Confidentiality and Non-Disclosure: General Obligations of the Clearing House

12.1 The Clearing House will treat all Confidential Material in the terms envisaged in this schedule 2.2D, confining use to the ForexClear Default Management Process, restricting its availability on a “strictly need to know basis”, and exercising every duty of care required of it as a Recognised Clearing House and as a Derivatives Clearing Organization.

13. Third Party Rights

13.1 A person who is not a party to this ~~chedule 2.2D~~[chedule 2.2D](#) shall have no rights under the Contracts (Rights of Third Parties) Act 1999 to enforce any of its terms.

2.3 LISTED INTEREST RATES

2.3.1 *Introduction*

(a) *Background*

These FCM Procedures apply to the clearing of FCM Listed Interest Rate Eligible Products listed for trading on Rates Exchanges, and form part of the FCM Rulebook and must be read in conjunction with the other parts of the FCM Rulebook.

FCM Listed Interest Rates Clearing Members must inform themselves fully of their obligations under the FCM Rulebook and other relevant documentation, such as the FCM Clearing Membership Agreement and the terms of any approval by the Clearing House to extend clearing activities. FCM Listed Interest Rates Clearing Members should also familiarise themselves with the relevant Rates Exchange Rules and the FCM Listed Interest Rates Contract Terms.

The FCM Rulebook (including these FCM Procedures) and the FCM Listed Interest Rates Contract Terms are subject to change from time to time. Enquiries regarding these FCM Procedures or any other aspects of the operation of the FCM Listed Interest Rates Clearing Service should be directed to the Listed Rates Clearing House Client Services Department on +44 7426 7651 or ListedRates.Ops.UK@lch.com or ratesclientservices@lch.com.

Enquiries regarding FCM Listed Interest Rates Clearing Member status should be directed to the Onboarding Department on +44 (0) 20 7426 7949 or onboarding@lch.com.

In the event of any conflict between any provision of these FCM Procedures and any requirement or provision of any third party (including but not limited to any requirement or provision in any Rates Exchange Rules), these FCM Procedures shall prevail.

Enquiries relating to: (i) trading FCM Listed Interest Rates Contracts; (ii) Rates Exchange Rules; or (iii) the FCM Listed Interest Rates Contract Terms of any FCM Listed Interest Rates Contract other than a Designated FCM Listed Interest Rates Contract should be directed to the relevant Rates Exchange. Enquiries relating to (i) clearing FCM Listed Interest Rates Contracts; (ii) the FCM Rulebook; or (iii) the FCM Listed Interest Rates Contract Terms of any Designated FCM Listed Interest Rates Contracts should be directed to the Clearing House.

(b) *Interpretation*

Capitalised terms used in these FCM Procedures not otherwise defined herein have the meanings ascribed to them in the FCM Rulebook.

~~Except where otherwise stated, all times shown are London time and the twenty four hour clock is used.~~

(c) *FCM Listed Interest Rates Eligible Products*

FCM Listed Interest Rates Clearing Members are advised for the purposes of the FCM Regulations and these FCM Procedures, that the eligibility criteria for FCM Listed Interest Rate Eligible Products is available on the Clearing House's website (www.lch.com).

(d) *Use of the FCM Listed Rates Clearing Service*

(i) Where any FCM Clearing Member wishes to participate in any part of the FCM Listed Interest Rates Clearing Service, it must first seek appropriate authorisation from the Clearing House. FCM Clearing Members seeking authorisation to participate in the FCM Listed Interest Rates Clearing Service will be required to seek separate authorisation for business undertaken in relation to the service provided by each Rates Exchange.

Details of how to obtain such authorisations may be obtained from the Clearing House's Onboarding Department. The FCM Clearing Member must comply with all membership and other requirements of the Clearing House, including requirements relating to settlement. Specifically, with regard to settlement, each FCM Clearing Member must at all times ensure:

- (A) that it has PPS accounts in all relevant currencies to enable clearing and settlement; and
 - (B) that it has settlement accounts with all relevant central securities depositories identified in these FCM Procedures as relevant to such FCM Clearing Member's FCM Listed Interest Rates Clearing Business.
- (ii) Failure to meet the requirements set out in sub-paragraph (d)(i)(A)-(B) above (and other applicable requirements) will result in that FCM Clearing Member not having appropriate settlement arrangements in place and, as a result, any FCM Listed Interest Rates Novation Transaction or Rates Exchange Match presented for registration by, or on behalf of, that FCM Clearing Member will not fulfil the relevant eligibility criteria for registration as FCM Listed Interest Rates Contracts (see FCM Regulation 59(c) and FCM Regulation 60(b)). In such a case, such FCM Listed Interest Rates Novation Transaction or Rates Exchange Match may be rejected by the Clearing House and no FCM Listed Interest Rates Contracts would arise. The FCM Listed Interest Rates Novation Transaction or Rates Exchange Match would then be governed by any applicable Rates Exchange Rules.

(e) *Suspension of Trading*

For the avoidance of doubt, any action by a Rates Exchange to suspend, de-list or take any other action with regard to an FCM Listed Interest Rate Eligible Product shall not affect any obligations that an FCM Listed Interest Rates Clearing Member may have to the Clearing House with regard to any open FCM Listed Interest Rates Contracts in such Listed Interest Rate Eligible Product.

(f) *Liability*

- (i) FCM Listed Interest Rates Clearing Members are asked to note that any statements set out in these FCM Procedures regarding the liability of the Clearing House are made without prejudice to the generality of the provisions set out in FCM Regulation 44.
- (ii) The Clearing House does not seek to limit or exclude any liability for personal injury or death caused by its negligence, or for fraud or wilful default on the part of the Clearing House.

(g) *Rates Exchange Status*

Application for Rates Exchange status shall be made in accordance with the policies published from time to time on the Clearing House's website. A list of Rates Exchanges currently approved by the Clearing House, as well as an indication of whether FCM Listed Interest Rates Eligible Products listed on such Rates Exchange are registered by the Clearing House through an open offer or through novation, shall be made available by the Clearing House. Where the Clearing House approves additional Rates Exchanges, it will notify FCM Listed Interest Rates Clearing Members via a member circular.

2.3.2 *General Information*

(a) *Service Operation*

(i) *Trading and Clearing System Functions*

The respective functions of a Rates Exchange's trading system and the Clearing House's clearing system are contained in the relevant Service Description. All enquiries regarding the FCM Listed Interest Rates Clearing Service should be directed to the Listed Rates Client Services Department.

(ii) *Operating Times*

The Clearing House will publish ~~by member circular and~~ on its website details of the days and times during which the FCM Listed Interest Rates Clearing Service will be operational.

(iii) *Trade Acceptance Hours*

The trade acceptance hours of a given Rates Exchange are set out in the relevant Service Description.

Any FCM Listed Interest Rates Novation Transactions or Rates Exchange Matches presented outside of these hours will be designated as "pending" registration. No position management or allocation functions may be performed on a trade that is in a "pending" status. Once the Clearing House's systems reopen, each such "pending" trade will be instantaneously processed for registration and its status will be updated accordingly in the reports made available by the Clearing House to FCM Clearing Members.

(iv) *System Requirements*

FCM Clearing Members must have in their office, at a minimum, access to the clearing system GUI where required by the

Clearing House, and back-up connectivity to the clearing system as required by the Clearing House.

(b) *Member Reporting*

The Clearing House makes available appropriate clearing information via reports, real time confirmations and other means. Full details are contained in the relevant Service Description documentation.

(c) *Clearing House Reporting*

The Clearing House (acting, where applicable, through the entity to which it has elected to delegate the relevant reporting obligation) shall report to a trade repository or similar body the details of an FCM Listed Interest Rates Contract and any modification or termination of such contract without duplication and no later than the working day following the conclusion, modification or termination of such contract, in line with the requirements of Applicable Law.

(d) *Static Data*

Prior to presentation of any FCM Listed Interest Rates Novation Transaction or Rates Exchange Match for registration as an FCM Listed Interest Rates Contract, an FCM Listed Interest Rates Clearing Member is required to provide sufficient information in respect of the Rates Exchange from which such FCM Listed Interest Rates Novation Transaction or Rates Exchange Match will be presented (“**Rates Exchange Information**”). This applies also to any FCM Listed Interest Rates Novation Transaction or Rates Exchange Match traded pursuant to any agency arrangements permitted by the rules of that Rates Exchange.

The format, contents and completion process of the static data form for the provision of the Rates Exchange Information, in respect of each Rates Exchange, is prescribed from time to time by the Clearing House. Copies of the prescribed forms, for each Rates Exchange, are available from the Clearing House Onboarding Department.

Failure to provide the correct Rates Exchange Information in respect of the particular Rates Exchange may result in the rejection of FCM Listed Interest Rates Novation Transaction or Rates Exchange Match.

(e) *Customer Gross Margin*

Pursuant to FCM Regulation 7(c)(iv), for each business day an FCM Clearing Member must report the end-of-day gross positions in FCM Listed Interest Rates Contracts for each of the individual FCM Clients with positions in its FCM Omnibus Listed Interest Rates Client Account with LCH, other than Nominated FCM Clients that participate in the FCM Portfolio Margining Service. Such position reports must be

submitted in the form and manner specified by the Clearing House. If an FCM Clearing Member fails for any reason to provide a position report for a given business day, then the Clearing House shall use the positions of the relevant FCM Clients included in the most recent successfully submitted position report of that FCM Clearing Member.

2.3.3 **Registration**

(a) *General*

FCM Listed Interest Rates Contracts may arise through either a novation or an open offer clearing mechanism.

(i) *Novation*

Novation applies to each FCM Listed Interest Rates Eligible Product executed as an FCM Listed Interest Rates Novation Transaction on a Rates Exchange. Where an FCM Listed Interest Rates Novation Transaction is presented to the Clearing House for registration, the Clearing House will determine whether to accept or reject the FCM Listed Interest Rates Novation Transaction within the required timeframe under all Applicable Law. Where the Clearing House determines to accept the FCM Listed Interest Rates Novation Transaction, registration shall occur immediately and the FCM Listed Interest Rates Novation Transaction shall be automatically replaced with (as applicable) (i) two separate FCM Listed Interest Rates Contracts, one between the relevant FCM Listed Interest Rates Clearing Member and the Clearing House and the other between the same or another FCM Listed Interest Rates Clearing Member and the Clearing House, or (ii) one FCM Listed Interest Rates Contract between the relevant FCM Listed Interest Rates Clearing Member and the Clearing House and one Non-FCM Listed Interest Rates Contract between the relevant Listed Interest Rates Clearing Member and the Clearing House.

Novation of FCM Listed Interest Rates Novation Transactions is described in greater detail in FCM Regulation 3(b) and FCM Regulation 54.

(ii) *Open Offer*

The Clearing House also provides an open offer in respect of FCM Listed Interest Rates Eligible Products listed for trading on one or more Rates Exchanges. Pursuant to this “open offer”, once particulars in respect of a Rates Exchange Match are presented to the Clearing House, then, subject to the FCM Regulations and the FCM Procedures, the Clearing House shall automatically and immediately register either (i) two separate FCM Listed Interest Rates Contracts, one between the relevant

FCM Listed Interest Rates Clearing Member and the Clearing House and the other between the same or another FCM Listed Interest Rates Clearing Member and the Clearing House, or (ii) one FCM Listed Interest Rates Contract between the relevant FCM Listed Interest Rates Clearing Member and the Clearing House and one Non-FCM Listed Interest Rates Contract between the relevant Listed Interest Rates Clearing Member and the Clearing House.

The Clearing House's open offer arrangements for Rates Exchange Matches are described in greater detail in FCM Regulation 53.

(b) *Presentation*

Presentation of an FCM Listed Interest Rates Novation Transaction or a Rates Exchange Match (as applicable) for registration to the Clearing House constitutes immediate confirmation in accordance with the FCM Regulations by the FCM Listed Interest Rates Clearing Member in whose name the FCM Listed Interest Rates Novation Transaction or a Rates Exchange Match is presented. However, the Clearing House will only accept for registration, as FCM Listed Interest Rates Contracts, the particulars of an FCM Listed Interest Rates Novation Transaction or a Rates Exchange Match presented by a Rates Exchange in a message format and manner acceptable to the Clearing House.

Each FCM Listed Interest Rates Clearing Member authorised to participate in the FCM Listed Interest Rates Clearing Service must be familiar with the operating procedures and deadlines of each Rates Exchange in respect of which it has been approved by the Clearing House.

(c) *Intra-Day Registration*

The Clearing House registers all FCM Listed Interest Rates Contracts on an intra-day basis.

~~(d) *Risk Pending Trades*~~

~~Except as otherwise required by Applicable Law, trades presented to the Clearing House for registration can be validated against a number of risk parameters, including: quantity, price, premium, strike price, trade value or mark to market profit/loss parameters (“Risk Parameters”). Any trades that fall outside of the validation parameters will enter a pending state (the “Risk Pending Queue”) and require validation by Risk Management before being accepted or rejected by the Clearing House.~~

~~The Risk Parameter ranges are set by Risk Management and can be amended during periods of low or high volatility to capture or avoid suspension of trades which are within the day's trading range.~~

~~(e) Conditions for Acceptance of Risk Pending Trades~~

~~Except as otherwise required by Applicable Law, registration of trades held in the Risk Pending Queue is conditional on the transfer of sufficient Collateral to the Clearing House.~~

~~If the Clearing House decides that additional Collateral is required it will advise the FCM Listed Interest Rates Clearing Member as soon as possible. The currency and method of funds transfer, or type of Collateral to be provided, will be agreed between the Clearing House and the FCM Listed Interest Rates Clearing Member. Only when the Clearing House has received the Collateral or has received confirmation from the transferring bank that the cash Collateral has been, or is, in the process of being transferred will it accept the pending trade.~~

~~The Clearing House will carry out the process of accepting pending trades on an hourly basis throughout the day, or more frequently where possible. The acceptance process will apply to both sides of a trade at the same time.~~

~~It is the responsibility of each FCM Listed Interest Rates Clearing Member to ensure that any trades likely to require acceptance are input as early as possible in the day; and that either sufficient surplus Collateral is maintained with the Clearing House or arrangements are in place to meet additional calls for Collateral. Trades not accepted by the Clearing House will not be registered. In order to achieve registration the trade must be re-submitted (in accordance with the relevant Rates Exchange Rules) the next business day, when the same process will apply.~~

(d) ~~(f) Rejection~~

Where (a) an FCM Listed Interest Rates Novation Transaction, or (b) the particulars of a Rates Exchange Match are presented to the Clearing House for registration as two FCM Listed Interest Rates Contracts (or one FCM Listed Interest Rates Contract and one Non-FCM Listed Interest Rates Contract), the Clearing House may reject such registration where:

- (i) the relevant FCM Listed Interest Rates Eligibility Criteria are not met;
- (ii) such transaction or particulars (as applicable) have as their subject a product which is not an FCM Listed Interest Rates Eligible Product;
- (iii) such transaction or particulars (as applicable) contain invalid or incomplete message data;

- (iv) such transaction or particulars (as applicable) are required or requested by any Regulatory Body or the relevant Rates Exchange to be rejected or treated as void or voided; or
- (v) the Clearing House considers that rejection is advisable for its own protection or the protection of the relevant market.

If the Clearing House rejects the registration of an FCM Listed Interest Rates Novation Transaction or a Rates Exchange Match, the relevant FCM Listed Interest Rates Clearing Member(s) and Listed Interest Rates Clearing Member, and the relevant Rates Exchange, will be notified of such rejection within the required timeframe under all Applicable Law.

If an FCM Listed Interest Rates Novation Transaction or the particulars of a Rates Exchange Match are presented to the Clearing House for registration and rejected, such FCM Listed Interest Rates Novation Transaction or Rates Exchange Match (as applicable) may be re-presented for registration in the form of a new FCM Listed Interest Rates Novation Transaction or Rates Exchange Match (as applicable) but with the same economic terms in accordance with, and subject to, the FCM Rulebook and all Applicable Law, and such FCM Listed Interest Rates Novation Transaction or Rates Exchange Match (as applicable) will, for the purposes of the FCM Rulebook and upon such re-presentation, constitute a new FCM Listed Interest Rates Novation Transaction or Rates Exchange Match (as applicable). FCM Listed Interest Rate Novation Transactions must be executed, matched and presented for registration prior to the relevant Rates Exchange deadline for registration. Any FCM Listed Interest Novation Transactions presented after that time will be rejected.

Where a transaction or particulars (as applicable) are rejected by the Clearing House, no FCM Listed Interest Rates Contracts arise between the Clearing House and the FCM Listed Interest Rates Clearing Members concerned. Subject to FCM Regulation 44(e), the Clearing House has no liability in respect of such rejection.

2.3.4 **Accounts**

- (a) *Position Accounts*
 - (A) **FCM Accounts.** For identification purposes, each FCM Listed Interest Rates Clearing Member is assigned a unique three-character mnemonic with respect to its accounts relating to FCM Listed Interest Rates Contracts. An FCM Listed Interest Rates Clearing Member's position and financial information are further identified by position-keeping accounts corresponding to a single character code: C for client business, H for house business, and A for affiliate business.

(B) **Position-Keeping Accounts.** The account types are H for house business (Proprietary Account), C for segregated client business (an FCM Omnibus Listed Interest Rates Client Account with LCH and an FCM Omnibus Listed Interest Rates Portfolio Margining Client Account with LCH), and A for affiliate business (an FCM Affiliate Account). An FCM Listed Interest Rates Clearing Member's FCM Listed Interest Rates Contract positions are also recorded within the FCM Listed Interest Rates Clearing Service in Listed Interest Rates accounts. The FCM Listed Interest Rates Clearing Member reporting functionality also allows each FCM Listed Interest Rates Clearing Member to identify all FCM Listed Interest Rates Contracts registered in its name.

(b) FCM Omnibus Listed Interest Rates Portfolio Margining Client Account with LCH

(A) **Account Opening.** The Clearing House will open an FCM Omnibus Listed Interest Rates Portfolio Margining Client Account with LCH for each FCM Listed Interest Rates Clearing Member.

(B) **Purpose of Account.** The FCM Omnibus Listed Interest Rates Portfolio Margining Client Account with LCH is the account from which the Identified Off-Setting FCM Listed Interest Rates Contracts of a Nominated FCM Client will be transferred in connection with the operation of the FCM Portfolio Margining Service.

(C) **Allocation.** An FCM Listed Interest Rates Clearing Member is responsible for designating, in the form and manner specified by the Clearing House, which FCM Portfolio Margining Eligible FCM Listed Interest Rate Contracts of a given Nominated FCM Client are to be recorded to the FCM Omnibus Listed Interest Rates Portfolio Margining Client Account with LCH. Any FCM Portfolio Margining Eligible FCM Listed Interest Rate Contracts not so designated will automatically be recorded to the FCM Omnibus Listed Interest Rates Client Account with LCH of the relevant FCM Listed Interest Rates Clearing Member.

(D) **Customer Data.** In connection with submitting an FCM Portfolio Margining Request in respect of a Nominated FCM Client, an FCM Listed Interest Rates Clearing Member must furnish the Clearing House with the correct, full legal name and associated legal entity identifier ("LEI") of such Nominated FCM Client, in the form and manner specified by the Clearing House. An FCM Listed Interest Rates Clearing Member must promptly notify the Clearing House of any changes to the legal name and/or LEI of a Nominated FCM Client.

(E) Gross Margining. The FCM Omnibus Listed Interest Rates Portfolio Margining Client Account with LCH will be margined on a gross basis per Nominated FCM Client as described in more detail in Section 2.3.5 below.

(c) ~~(b)~~ *Other Accounts*

The Clearing House will open operational accounts, in respect of an FCM Listed Interest Rates Clearing Member, which are used to record cash and securities balances and its Listed Interest Rates Contributions. The Clearing House may open and close such operational accounts, in its sole discretion, upon notice to the relevant FCM Listed Interest Rates Clearing Member. FCM Listed Interest Rates Operations will provide details of such accounts to an FCM Listed Interest Rates Clearing Member upon request.

2.3.5 *Margin and Collateral*

(a) *Initial Margin*

The Clearing House will require FCM Listed Interest Rates Clearing Members to furnish it with Initial Margin.

The Initial Margin requirement in respect of an FCM Omnibus Listed Interest Rates Client Account with LCH is calculated on a net basis, plus an additional amount based on the end of day gross position report for each FCM Client submitted by the FCM Clearing Member pursuant to Section 2.3.2(e) above, and the amount of such Initial Margin requirement shall not be less than the sum of the Initial Margin that would be required by the Clearing House as if each such FCM Client was an FCM Listed Interest Rates Clearing Member. If an FCM Clearing Member fails for any reason to provide an end of day gross position report for a given business day, then the Clearing House shall calculate the end of day gross Initial Margin requirement based on the gross positions included in the most recent successfully submitted position report of that FCM Clearing Member.

The Initial Margin requirements requirement in respect of an FCM Listed Interest Rates Clearing Member's FCM Omnibus Listed Interest Rates Portfolio Margining Client Account with LCH are is calculated on a gross basis for each Nominated FCM Client equal to and shall be an amount that is not less than the sum of the Initial Margin that would be required by the Clearing House as if each such Nominated FCM Client was an FCM Listed Interest Rates Clearing Member. Initial Margin requirements are calculated on a net basis for each FCM Affiliate Omnibus Listed Interest Rates Account and on a net basis for each FCM Affiliate Individual Listed Interest Rates Account.

Initial Margin requirements are calculated on a net basis for each FCM Affiliate Omnibus Listed Interest Rates Account and on a net basis for each FCM Affiliate Individual Listed Interest Rates Account.

The Clearing House reserves the right to require additional amounts of Margin from a specific FCM Listed Interest Rates Clearing Member or from all FCM Listed Interest Rates Clearing Members in accordance with FCM Regulation 14.

(A) Initial Margin Parameters

Initial margin parameters are set by the Clearing House after consultation with the relevant Rates Exchange. However, in accordance with the FCM Regulations, the Clearing House retains the right at its discretion to vary the parameters for the whole market or for an FCM Listed Interest Rates Clearing Member's accounts.

FCM Listed Interest Rates Clearing Members will be notified by the Clearing House of alterations to initial margin parameters no later than the day before PPS Calls are made based on the new rates.

(B) Intra-Day Margin Calls

In accordance with the FCM Regulations the Clearing House is entitled to make additional margin calls for payment the same day (intra-day margin calls) where it considers necessary. Intra-day margin calls will be made via the Protected Payments System (see FCM Procedure 3.2).

(C) Calculation of Initial Margin

Value at Risk (VaR). Initial margin obligations are re-calculated at the close of each business day using a VaR algorithm developed to calculate margin requirements on FCM Listed Interest Rates Contracts.

Further information on the FCM Listed Interest Rates margin model is available from the Clearing House.

(D) Minimum Excess Requirement ("MER")

Each FCM Listed Interest Rates Clearing Member is subject to a minimum excess margin requirement ("MER") in respect of (i) its FCM Omnibus Listed Interest Rates Client Account with LCH, (ii) the set of FCM Listed Interest Rates Contracts recorded in respect of each Nominated FCM Client in the FCM Omnibus Listed Interest Rates Portfolio Margining Client Account with LCH, (iii) each of its FCM Affiliate Accounts, and

(iv) its Proprietary Account (each, a “MER Account”). The Clearing House calculates and resets MER daily for each MER Account based on the prior liabilities incurred in respect of such MER Account over a given lookback period.

The Clearing House may call MER on an intra-day basis or as part of the end of day margin call.

The value of the Collateral posted by an FCM Listed Interest Rates Clearing Member as MER in respect of a MER Account is available on an intra-day basis to satisfy any liabilities incurred by that FCM Listed Interest Rates Clearing Member in respect of such MER Account as they arise. An FCM Listed Interest Rates Clearing Member must replenish any MER that has been used to satisfy any such liabilities at the next relevant margin call.

For the avoidance of doubt, MER forms part of the Required Margin with respect to each MER Account and does not constitute Excess Margin with respect to such MER Account.

(b) *Daily Settlement Amounts* ~~and Contingent Margin~~

All open contracts are marked to market daily by the Clearing House in accordance with the relevant Rates Exchange Rules and the FCM Listed Interest Rates Contract Terms. The official quotation is used as the market price. Profits or losses are either: (X) credited to or debited from, as applicable, an FCM Listed Interest Rates Clearing Member’s FCM Omnibus Listed Interest Rates Client Account with LCH and/or its FCM Omnibus Listed Interest Rates Portfolio Margining Client Account with LCH (in respect of its FCM Client Business) or the relevant FCM Affiliate Account (in respect of its FCM Affiliate Business) or (Y) they form non-realised contingent liabilities or credits.

(A) Realised Daily Settlement Amounts

Realised daily settlement amounts are the calculated profit or loss arising from a comparison between the value of open positions at the relevant official quotations with the value of positions recorded by the Clearing House (i.e. the trade price for new trades and the previous day’s official quotation for other positions). Realised daily settlement amounts are realised into postings to the FCM Clearing Member’s FCM Omnibus Listed Interest Rates Client Account with LCH (in respect of its FCM Client Business) or the relevant FCM Affiliate Account (in respect of its FCM Affiliate Business).

~~(B) Contingent Margin~~

~~Contingent margin is calculated with reference to the official quotation at which a contract went to delivery and the underlying asset value or the next nearest futures delivery month official quotation, dependent on the terms of the FCM Listed Interest Rates Contract or these FCM Procedures. Contingent margin is calculated for FCM Listed Interest Rates Contracts which are subject to delivery of an underlying asset.~~

~~(C) Option Daily Settlement Amounts~~

~~Option daily settlement amounts are the value of unexpired options, calculated with reference to the official quotation. Bought and sold options generate credit and debit option daily settlement amounts respectively.~~

(c) *Additional Margin*

In accordance with FCM Regulation 14 (*Margin and Collateral*), the Clearing House may call additional amounts of Collateral (on top of the amounts of Collateral previously transferred to the Clearing House in respect of initial margin and daily settlement obligations) as security for the performance by an FCM Listed Interest Rates Clearing Member of its obligations to the Clearing House in respect of FCM Listed Interest Rates Contracts registered in its name. This may be required from time to time where, in the opinion of the Clearing House, the risk inherent in FCM Contracts held by the FCM Listed Interest Rates Clearing Member is not adequately covered by the Collateral in respect of the initial or daily settlement obligations. This may cover instances where stress losses under various scenarios are larger than the pre-defined thresholds of the default fund. The Clearing House may only apply such additional Collateral against the FCM Contracts generating such losses, and may not apply it as a credit in respect of initial margin obligations generally.

(d) *Official Quotations*

Official Quotations are based on the “Daily Settlement Price (DSP)” and are supplied by the relevant Rates Exchange (or, in respect of Designated FCM Listed Interest Rates Contracts, by the Clearing House) at the close of business each day. Should the relevant Rates Exchange fail to determine DSPs, the Clearing House will determine these as necessary. This will be done at the Clearing House’s discretion and announced as soon as possible.

(e) Cash Settlement

~~(A) Cash Settlement~~

Cash settlement is a final settlement derived from the difference between the expiry price and the previous business day's official quotation or such other quotation as is specified in the relevant

Rates Exchange Rules and the FCM Listed Interest Rates Contract Terms. This is debited from or credited to the FCM Clearing Member's FCM Omnibus Listed Interest Rates Client Account with LCH and/or its FCM Omnibus Listed Interest Rates Portfolio Margining Client Account with LCH (in respect of its FCM Client Business) or the relevant FCM Affiliate Account (in respect of its FCM Affiliate Business).

~~(B) Delivery~~

~~Deliverable contracts, as specified by the relevant Rates Exchange Rules and the FCM Listed Interest Rates Contract Terms, remaining open at expiry, or as notified via early delivery notice, are settled by physical delivery of the underlying at the Final Settlement Price (FSP), as determined by the relevant FCM Listed Interest Rates Contract Terms.~~

2.3.6 Trade and Position Management

(a) Allocations

FCM Listed Interest Rates Novation Transactions and Rates Exchange Matches can be allocated to an FCM Listed Interest Rates Clearing Member's Position Keeping Accounts in a number of different ways based on the information provided:

- (A) by including the Position Account Owner and the Position account type (e.g., House, Client, or Affiliate);
- (B) by giving-up the trade to another FCM Listed Interest Rates Clearing Member (~~GUI~~ or using the message function);
- (C) by carrying out an internal give-up (~~GUI~~ or using the function) to move the trade between an FCM Listed Interest Rates Clearing Member's own accounts; and
- (D) by modifying the trade or particulars (~~GUI only~~ by contacting the Clearing House).

(b) Give-Ups

An FCM Listed Interest Rates Novation Transaction or Rates Exchange Match that has been accepted can be given up, either to another Position Account Owner within a different FCM Listed Interest Rates Clearing Member's accounts ("**External Give-up**"), or to a different Position Account within the same FCM Listed Interest Rates Clearing Member's accounts ("**Internal Give-up**"). A "partial give-up" is achieved by a splitting the FCM Listed Interest Rates Novation Transaction or Rates Exchange Match followed by a Give-up.

For an Internal Give-up, the source and destination Position Account must be of the same account type. For an External Give-up, the source and destination Position Account may be of different account types where a Position Account owner is an FCM Client in respect of one FCM Listed Interest Rates Clearing Member but an FCM Affiliate in respect of the other FCM Listed Interest Rates Clearing Member.

An Internal Give-up is actioned immediately after the give-up instruction is successfully validated (including in respect of account type) and the trade is allocated to the target Position Account Owner specified in the instruction. Once an External Give-up instruction is successfully validated (including in respect of account type) it is marked as “Alleged”. The target Position Account Owner will be informed of the alleged Give-up.

A Give-up that is still in an Alleged status can be cancelled, in which case the give-up instruction will be marked as cancelled and a confirmation sent to both the source and target Position Account Owners.

Give-ups are also passed through the risk validation checks described in Section 2.3.3(c) and (d) above.

Give-ups are permitted up until the close of trading on the day following the date on which a contract is executed (“**Position Management Window**”). Give-ups on expiring contracts are only permitted until the end of the Position Management Window of the expiry process.

(c) *Take-Ups*

Any “Alleged” external Give-up instruction can either be Taken-up or Rejected by the target Position Account Owner, which must enter the position account it wishes the trade to be allocated to if it accepts the give-up. The trade is then re-allocated to the new position account and the Give-up and Take-up transactions are marked as Transferred.

If the Take-up is rejected the trade will remain in the source position account and the Give-up and Take-up transactions marked as Rejected.

Take-ups are permitted up until the end of the Position Management Window. Take-ups on expiring contracts are only permitted until the end of the Position Management Window of the expiry process.

(d) *Position Transfers*

Without prejudice to any approval that may be required under the relevant Rates Exchange Rules, FCM Listed Interest Rates Clearing Members wishing to effect a position transfer to another FCM Listed Interest Rates Clearing Member approved to participate in the FCM Listed Interest Rates Clearing Service may do so directly through

Synapse, provided that, where a transfer would exceed any applicable Risk Parameters, such transfer will be subject to the validation process described in Section 2.3.3(b) and (c) above before being accepted or rejected by the Clearing House.

Otherwise, FCM Listed Interest Rates Clearing Members wishing to effect a position transfer should submit a written request by sending an email to [RatesClientServices@lch.com].

Provided they relate to valid positions, relate to permissible account types, and adequate Collateral is available from both FCM Listed Interest Rates Clearing Members, the transfer will normally be authorised. Should insufficient Collateral be available, the transfer may not be authorised until additional Collateral is transferred to the Clearing House.

2.3.7 Option Exercise and Expiry

(e) (a) ~~General~~ Average Pricing

An FCM Listed Interest Rates Clearing Member may request that the Clearing House group together certain FCM Listed Interest Rates Contracts (an “AP Group”) in order to calculate an average price for such AP Group. All such requests must be made in the form and manner required by the Clearing House and during the times on a business day when the Clearing House makes the average pricing service available.

Only FCM Listed Interest Rates Contracts that: (i) are of the same trade direction; (ii) have the same symbol, expiry month and execution date; and (iii) are recorded in the same account, are eligible for inclusion in the same AP Group. An FCM Listed Interest Rates Clearing Member may add FCM Listed Interest Rate Contracts to, or remove FCM Listed Interest Rate Contracts from, an AP Group until the AP Group is closed. An FCM Listed Interest Rate Contract that forms part of an AP Group cannot be given-up or transferred under Section 2.3.6(b) or (d), above.

Where the Clearing House accepts an average pricing request, the Clearing House will (i) calculate an average price for the AP Group using the algorithm established for such purpose and (ii) cancel the FCM Listed Interest Rate Contracts in the AP Group and replace each such contract with a single FCM Listed Interest Rate Contract at the calculated average price.

~~Each contract is exercised through the Clearing System. Exercise Rules are specified by the relevant Rates Exchange Rules and/or the relevant FCM Listed Interest Rates Contract Terms, which determine the form and manner in which exercise notifications must be given, and the time frames for doing so. Exercise may be automatic or manual.~~

~~Options are exercised manually except on the last trading day when a combination of auto exercise and manual exercise is used and open futures contracts are created.~~

~~When exercised against, the Clearing House will select sellers against which to exercise, based on their open position. The method of allocation used for options is random scatter. The allocation process randomly determines each lot to be assigned in such a way that its selection is independent of either the preceding lot or of the subsequent lot in the selection process.~~

~~An option shall be deemed to be exercised at such time as confirmed by the Clearing House on the FCM Clearing System.~~

~~Exercised Index Option contracts are settled in cash. The settlement amount is the difference between the strike price of the contract and the relevant Final Settlement Price (FSP).~~

~~FCM Listed Interest Rates Clearing Members should consult the Service Description for more information and refer any enquiries to Client Services at [RatesClientServices@lch.com].~~

(b) Options Exercise Instructions

(A) Manual Exercise

~~Exercise instructions are submitted via the Options Exercise screen on the Clearing House clearing system, between times as specified by relevant Rates Exchange Rules and/or the relevant FCM Listed Interest Rates Contract Terms on any business day from the business day following the day of trade until the expiry day.~~

~~Exercise instructions can be cancelled via the Options Exercise screen up until the exercise deadline on the day the exercise instruction is input to the FCM Clearing System.~~

~~Warning messages will be displayed on the following conditions:~~

- ~~• when an exercise is performed on Out of the Money options;~~
- ~~• when a cancel is performed on In the Money options;~~
- ~~• the number of lots exceed the lot limit, if the lot limit parameter is set by the FCM Clearing Member in the BP Exercise Limit screen; and~~
- ~~• early exercise, i.e. non spot month, if this parameter is set by the Clearing Member in the BP Exercise Limit screens~~

~~An option exercise maker checker facility ensures exercise instructions are authorised by another authorised person before being submitted. FCM Listed Interest Rates Clearing Members should ensure that they allow sufficient time for submitting instructions within contract deadlines, if this facility is switched on.~~

~~(B) Automatic Exercise on Expiry Day~~

~~Preset limits within the Clearing House clearing system define which options will be subject to automatic exercise at expiry.~~

~~Buyers of options may, in accordance with the relevant FCM Listed Interest Rates Contract Terms, choose not to exercise option series that would be subject to automatic exercise. FCM Listed Interest Rates Clearing Members that wish not to exercise such options must have done so by the exercise deadline of the expiring options. Failure to do so will result in the automatic exercise of the series.~~

~~(c) Expiry Day~~

~~Options expire at the time specified by relevant FCM Listed Interest Rates Contract Terms on the expiry date. FCM Listed Interest Rates Clearing Members who wish to exercise positions for strike prices which are not subject to automatic exercise for the expiring series, must do so by this time.~~

~~**It is not possible for FCM Listed Interest Rates Clearing Members to input exercise or exercise cancellation instructions after the expiry time.**~~

~~(d) Unavailability of System for Options Exercise~~

~~In the event that the Clearing House clearing system option exercise facilities are unavailable (in particular if an expiry or exercise deadline is imminent), it is essential that the FCM Listed Interest Rates Clearing Member contacts Client Services at [RatesClientServices@lch.com].~~

~~2.3.8 Conversion~~

~~The Clearing House may, after consultation with the relevant Rates Exchange and FCM Listed Interest Rates Clearing Members, amend, terminate, convert and/or combine or compress with other FCM Listed Interest Rates Contracts, any FCM Listed Interest Rates Contract that references a London interbank offered rate (or such other rate or index, as identified by the Clearing House in its discretion), where such amendment, termination, conversion, combination and/or compression shall take effect on and from the date determined by the Clearing House and notified to FCM Listed Interest Rates Clearing Members~~

~~and shall be on such terms and in such form as the Clearing House determines in its discretion.~~

~~2.3.9 Deliverable Bond Futures—Delivery Procedures~~

~~These delivery procedures should be read in conjunction with the rest of this document, the FCM Rulebook, the relevant Rates Exchange Rules and the relevant FCM Listed Interest Rates Contract Terms. FCM Listed Interest Rates Clearing Members must be fully aware of their obligations under the relevant contracts.~~

~~In the event of any conflict between the Rulebook and the relevant Rates Exchange Rules and the FCM Listed Interest Rates Contract Terms, the Rulebook shall prevail.~~

~~Enquiries concerning the procedures in this Section should be directed to Client Services staff at the Clearing House.~~

~~(a) Common Delivery Procedures~~

~~(A) Allocation Method~~

~~For all deliverable bond contracts the following method is used by the Clearing House to allocate stock delivered by Sellers to Buyers:~~

~~(A) Buying FCM Clearing Members' accounts are listed in mnemonic sequence and numbered sequentially;~~

~~(B) a number is chosen at random;~~

~~(C) the allocation of the lowest coupon bond commences with the selected mnemonic and progresses through the list referred to in (a) above; and~~

~~(D) when no further allocation of the lowest coupon bond can be made, the allocation continues with the next lowest coupon bond and so on, until the process is completed with the allocation of the highest coupon bond.~~

~~If bonds of equal coupon but with different maturity dates have been nominated then the bond with the earliest maturity will be allocated first.~~

~~For the purpose of settlement efficiency the results of the allocation will be subject to settlement shaping with each instruction not exceeding a nominal value of GBP 50 million for Gilts, EUR 50 million for Bund, Bobl and Schatz.~~

~~(B) Clearing Accounts~~

~~FCM Clearing Members' position keeping accounts, following any applicable netting, are aggregated to settlement account level for deliveries. FCM Clearing Members must submit separate notifications (Seller's Delivery Notices, etc) to the Clearing House for each settlement account.~~

~~(C) Final Settlement Prices (FSP)~~

~~The FSP for bond deliveries will be determined in accordance with the relevant FCM Listed Interest Rates Contract Terms. This is published as soon as possible after it has been set.~~

~~(D) Days and Times~~

~~All days are London business days unless otherwise stated.~~

~~All times are London times unless otherwise stated.~~

~~(E) Margin~~

~~The Clearing House continues to require Collateral in respect of initial and contingent margin requirements on open delivery contracts.~~

~~(F) Delivery System~~

~~The "Delivery System" is the Clearing House Delivery System for deliverable ~~FCM Listed Interest Rates Contracts~~, which allows users to send and receive data to and from the Clearing House.~~

~~FCM Clearing Members must submit delivery information using the Delivery System GUI.~~

~~When using the Delivery System GUI, FCM Clearing Members must always ensure that they allow sufficient time to input their delivery details within the deadlines prescribed in these procedures. Failure to do so will constitute late delivery of documentation and may be subject to disciplinary action. Clearing Members experiencing connection difficulties should contact Client Services on +44 7426 7651.~~

~~(G) Seller's Delivery Notice~~

~~Sellers must submit a *Delivery Notice* to the Clearing House via the Delivery System.~~

~~(H) Delivery Failure~~

~~Where the seller does not make delivery, or the buyer make payment, this will constitute a "delivery failure" within the~~

~~meaning of FCM Regulation 59. A delivery failure may occur for any reason whatsoever, including, without limitation:~~

- ~~(A) the failure of the Clearing House's clearing system to effect settlement of such delivery or payment;~~
- ~~(B) any error, failure, closure or suspension of the Clearing House's clearing system;~~
- ~~(C) a failure by any third party to make any required transfer of such deliverable bonds to seller or any settlement agent for seller in time to enable seller to make delivery to buyer; or~~
- ~~(D) any failure by either buyer or seller, or any settlement agent for either buyer or seller, to input any necessary instructions required by the Clearing House's clearing system or pursuant to the Regulations to effect settlement, including as a result of any fault or failure of any computer or communication system.~~

~~Where a delivery failure occurs, any decision as to alternative settlement procedures made by the Clearing House shall be binding on buyer and seller. The Clearing House may, but is not required to, require the buyer to pay a settlement adjustment amount ("**Settlement Adjustment Amount**").~~

~~Delivery failures are handled by the Clearing House on a case by case basis. The Clearing House may allow additional business days for delivery to be remedied.~~

~~As provided by FCM Regulation 59, in the event of a delivery failure the Clearing House may require the failing member to pay reasonable damages.~~

~~In addition, if a delivery failure occurs and any dividend or coupon is paid on the deliverable bonds during the delayed settlement period, the Clearing House may, but is not required to, require the seller to pay a dividend adjustment amount ("**Dividend Adjustment Amount**").~~

~~The delivery failure shall be "cured" on the business day on which the delivery has been made by the seller (including, where applicable, any Dividend Adjustment Amount) and the buyer to make payment (including, where applicable, any Settlement Adjustment Amount).~~

~~The Clearing House shall be entitled to call any cash amounts due under this Section 2.3.9(a)(H) via PPS and debit the relevant PPS account of the seller or buyer, as appropriate.~~

~~(b) Long Gilt~~

~~The following abbreviations are used in these procedures:~~

- ~~• DVP means delivery versus payment;~~
- ~~• RVP means receipt versus payment;~~
- ~~• Delivery and receipt versus payment means a transfer of Gilts, against payment of the consideration amount specified in the Gilt contract terms; and~~
- ~~• Euroclear UK and Ireland – The Euroclear UK and Ireland System.~~

~~(A) Delivery Mechanism~~

~~Deliveries under the Gilt contract must be made or taken via an account at Euroclear UK and Ireland (EUI).~~

~~Clearing House Delivery Account Details. – Details of the Clearing House's account at Euroclear UK and Ireland (EUI) are as follows: Clearing House account number 5172.~~

~~(B) Delivery Communication and the Delivery System~~

~~Delivery documentation must be submitted using The Delivery System. – When using The Delivery System, FCM Clearing Members must always ensure they allow sufficient time to input their delivery details within the deadlines prescribed in these procedures. – Failure to do so will constitute late delivery of documentation and may be subject to disciplinary action. FCM Clearing Members experiencing difficulties should contact Client Services on +44 7426 7651.~~

~~(C) Consideration Value Calculation~~

~~The amount due to Sellers and payable by Buyers is calculated in accordance with the Gilt contract terms (all values in GBP):~~

~~Consideration value per lot = (1000 x FSP x Price Factor) + Initial Accrued + (Daily Accrued x Delivery Days in Month)~~

~~Consideration Calculation Example~~

FSP(N)	=	107.41
Price Factor	=	1.2554334
Initial Accrued	=	1746.58
Daily Accrued	=	17.1233
Delivery Days in Month	=	10

$$\begin{aligned}
 \text{Single lot value} &= (1000 \times 107.41 \times 1.2554334) + 1746.58 + (17.1233 \times 10) \\
 &= 136,763.914494 \\
 \text{Consideration value per lot} &= 136,763.91
 \end{aligned}$$

The Clearing House establishes the consideration amount by calculating the full value of **1 lot** using the formula (i.e. up to 7 decimal places on the price factor and 5 on the FSP) and rounding to the nearest whole penny (.5 rounded down). This **per lot** value is then multiplied by the number of lots to establish the total consideration value.

(D) Delivery Timetable (Except for Last Notice Day)

DAY	TIME LONG GILT	ACTION	
		SELLERS	BUYERS
Notice Day	By 11:00	Sellers submit <i>Seller's Delivery Notices</i> in Synapse and the Delivery System	
	By 11:30	Synapse — position — keeping deadline FSP established	Synapse — position keeping deadline FSP established
	By 12:00		Allocation of lots to Buyers
	By 15:00	Delivery Positions for Futures Report available	Delivery Positions for Futures Report available Deliverable gilts allocated to Buyers
Notice Day +1	By 05:00	The Clearing House makes Account Sales and Delivery Instructions report available	The Clearing House makes Invoices and Delivery Instructions report available
	From 09:00	Seller to commence matching	Buyer to commence matching
	By 12:30	All deliveries must be matched in Euroclear UK & Ireland	All deliveries must be matched in Euroclear UK & Ireland

DAY	TIME LONG GILT	ACTION	
		SELLERS	BUYERS
Settlement Day (Notice day + 2)	By 13:00	Gilts delivered against payment	Gilts received against payment
S + 1		The Clearing House releases Collateral in respect of initial and contingent margin	The Clearing House releases Collateral in respect of initial and contingent margin

~~(E) Delivery Timetable (Last Notice Day)~~

DAY	TIME LONG GILT	ACTION	
		SELLERS	BUYERS
Last Notice Day (the business day following the last trading day)	By 10:00	Sellers submit <i>Seller's Delivery Notices</i> to The Delivery System	
		Synapse position keeping deadline	Synapse position keeping deadline
	By 11:00		Allocation of lots and gilts to Buyers
	By 15:00	The Clearing House makes Account Sales and Delivery Instructions report available	The Clearing House makes Invoices and Delivery Instructions report available
		Seller to commence matching	Buyer to commence matching
	By 17:30	All deliveries must be matched in Euroclear UK & Ireland	All deliveries must be matched in Euroclear UK & Ireland
Settlement Day (Last Notice Day + 1)	By 13:00	Gilts delivered against payment	Gilts received against payment
S + 1		The Clearing House releases Collateral in respect of initial and contingent margin	The Clearing House releases Collateral in respect of initial and contingent margin

~~(F) Long Gilt Delivery Procedures~~

~~(A) Last Trading, Notice and Settlement Day Definitions~~

~~The First and Last Notice Day, and Settlement Day, are defined in the FCM Listed Interest Rates Contract Terms for the Long Gilt contract.~~

~~(B) Notice Day~~

~~By 11:00 hours — Long Gilt~~

~~Deliverable positions are based on FCM Clearing Members' positions at the close of business the previous day. The positions may be transferred or settled to establish the deliverable.~~

~~On each business day during the notice period, a Seller may input an 'Early Delivery Notification' to Synapse and must then, in addition, submit to the Clearing House the corresponding *Seller's Delivery Notice*. The input of a delivery notification to Synapse without the corresponding *Seller's Delivery Notice* (or vice versa) will not constitute a valid notification to the Clearing House. Any notices submitted after this deadline will be rejected and Sellers must submit on the following business day if they still wish to deliver early (if the next business day is the Last Notice Day, then the Last Notice Day procedures apply).~~

~~By 11:30 hours (approx.)~~

~~The Final Settlement Price (FSP) is announced.~~

~~By 12:00 hours (approx) — Long Gilt~~

~~A Delivery Positions for Futures report indicating the number of lots allocated to Buyers is made available on Synapse.~~

~~By 15:00 hours~~

~~The Clearing House allocates Gilts to Buyers.~~

~~(C) Business Day Following Notice Day~~

~~By 05:00 hours~~

- ~~• Delivery Instructions for Sellers~~
- ~~• Delivery Instructions for Buyers~~

~~The instructions as described **must** be utilised by Clearing Members in order to match the instructions entered by the Clearing House.~~

~~Clearing Members should endeavour to match with the Clearing House at the **earliest** possible time. The times stipulated below are the latest possible times for pre-matching.~~

~~*From 09:00 hours*~~

~~Details of the delivery contracts must be submitted and matched in Euroclear UK & Ireland.~~

~~All entries **must** be made with the necessary fields completed in order to match with the Clearing House instruction.~~

~~*By 12:30 hours*~~

~~FCM Clearing Members must have successfully matched all trades with the Clearing House in Euroclear UK & Ireland.~~

~~**Failure to match with the Clearing House contravenes Clearing House Procedures.**~~

~~The Clearing House informs the operations personnel of the relevant Rates Exchange of any outstanding matching problems after this time.~~

~~(D) Last Trading Day (LTD)~~

~~*At 11:00 hours*~~

~~Trading ceases two business days prior to the last business day in the delivery month.~~

~~(E) Last Notice Day~~

~~The Last Notice Day is the business day following the Last Trading Day.~~

~~*By 10:00 hours – Long Gilt*~~

~~Sellers holding open positions **must** submit a *Seller's Delivery Notice* to the Clearing House via the Delivery System. FCM Clearing Members are not required to give notification via Synapse. FCM Clearing Members with open positions in the expired delivery month are obliged to make or take delivery.~~

~~By 15:00 hours – Long Gilt~~

~~The Clearing House makes the following available:~~

- ~~• Account Sales~~
- ~~• Invoices~~
- ~~• Delivery Instructions for Sellers~~
- ~~• Delivery Instructions for Buyers~~

~~FCM Clearing Members commence matching with the Clearing House.~~

~~By 17:30 hours~~

~~FCM Clearing Members must have successfully matched all trades with the Clearing House in Euroclear UK & Ireland.~~

~~**Failure to match with the Clearing House contravenes Clearing House Procedures.**~~

~~The Clearing House informs the operations personnel of the relevant Rates Exchange of any outstanding matching problems after this time.~~

~~(F) Settlement Day~~

~~Settlement day means the second business day after the notice day or, where the notice day is the Last Notice Day, settlement day will be the next business day after the Last Notice Day.~~

~~The Seller must ensure that their Euroclear UK & Ireland priority settings and cap permit their trades to settle before the Clearing House settlement deadline.~~

~~By 13:00 hours~~

~~Gilts will have passed from the Seller's Euroclear UK & Ireland account to the Clearing House's Euroclear UK & Ireland account (5172) and subsequently to the Buyer's Euroclear UK & Ireland account on Settlement Day.~~

~~The Buyers and the Clearing House's settlement bank will effect payment by the end of the day across Real Time Gross Settlement (RTGS) accounts at the Bank of England.~~

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

~~(c) German Government Bond (Euro-Bund)~~

~~The following abbreviations are used in these procedures:~~

- ~~• DVP means delivery versus payment;~~
- ~~• RVP means receipt versus payment;~~
- ~~• Delivery and receipt versus payment means a transfer of Bunds, against payment of the consideration amount specified in the FCM Listed Interest Rates Contract Terms for German Government Euro-Bund Contracts;~~
- ~~• Euroclear The Euroclear System; and~~
- ~~• Securities correspondent Euroclear, Clearstream Luxembourg SA or Clearstream Frankfurt.~~

~~(A) Delivery Mechanism~~

~~Deliveries under the Euro-Bund contract must be made or taken via accounts at one or more of the following delivery systems:~~

- ~~• Clearstream Frankfurt;~~
- ~~• Euroclear; and~~
- ~~• Clearstream Luxembourg.~~

~~Clearing House Delivery Account Details. The Clearing House's delivery agents and account details at Clearstream Frankfurt are as follows:~~

~~Deutsche Bank AG
Securities & Custody Services
PO Box 65755
Eschborn
Germany~~

~~Clearing House account number : 7077~~

~~Details of the Clearing House's accounts at Euroclear and Clearstream Luxembourg are as follows:~~

~~Euroclear : Clearing House account number 10167~~

Clearstream : Clearing House account number 18764
Luxemburg

~~The Clearing House retains the right to amend the above list without prior notification to FCM Clearing Members.~~

~~For each Euro Bund delivery, FCM Clearing Members are advised of the Clearing House's delivery systems, agents, accounts and reference numbers, on the *Delivery Instructions Report*.~~

~~(B) Delivery Communication and the Delivery System~~

~~Delivery documentation must be submitted using The Delivery System. When using The Delivery System, FCM Clearing Members must always ensure they allow sufficient time to input their delivery details within the deadlines prescribed in these procedures. Failure to do so will constitute late delivery of documentation and may be subject to disciplinary action. FCM Clearing Members experiencing difficulties should contact Client Services on +44 7426 7651.~~

~~(C) Consideration Valuation Calculation~~

~~The amounts due to Sellers from Buyers are calculated in accordance with the Euro Bund contract terms.~~

Consideration value per lot = (1000 x FSP x Price Factor) + Accrued Interest

Consideration Calculation Example

FSP = 113.41

Price Factor = 0.950491

Accrued Interest = 2258.22

(1000 x 113.41 x 0.950491) + 2258.22

= EUR
110,053.40431

Consideration Value = EUR 110,053.40

~~The consideration value is calculated using the full extent of decimal places for each component of the formula.~~

The invoice value of **1 lot** is then established by taking the full value and rounding to the nearest Euro cent (.5 being rounded down). This **per** lot value is then multiplied by the number of lots to establish the total invoice value.

(D) Delivery Timetable

DAY	TIME	TIME	ACTION	
	LONDON	CET*	SELLERS	BUYERS
Last trading day (LTD)	11:30	12:30	Trading ceases	Trading ceases
	12:00	13:00	FSP established	FSP established
	17:00	18:00	Synapse Position Keeping deadline Sellers submit <i>Sellers Delivery Notice</i>	Synapse Position Keeping deadline
	17:30	18:30	The Clearing House performs delivery allocation	The Clearing House performs delivery allocation
	18:00	19:00	The Clearing House makes Account Sales and Delivery Instruction Report available.	The Clearing House makes Invoices and Delivery Instruction Report available.
S-1 (LTD+1)	10:00	11:00	Sellers submit DVP instructions to their custodian bank	Buyers submit RVP instructions to their custodian bank
	14:00	15:00	Sellers match the Clearing House instruction entered into delivery centre	Buyers match the Clearing House instruction entered into delivery centre
S (LTD+2)	Following standard delivery cycles	Following standard delivery cycles	The Clearing House receives confirmation of delivery	The Clearing House receives confirmation of delivery
S+1 (LTD+3)			The Clearing House releases Collateral in respect of initial and contingent margin	The Clearing House releases Collateral in respect of initial and contingent margin

~~* CENTRAL EUROPEAN TIME INCLUDES FRANKFURT TIME WHERE QUOTED IN THE FCM LISTED INTEREST RATES CONTRACT TERMS, RELEVANT RATES EXCHANGE RULES AND CLEARING HOUSE DELIVERY PROCEDURES.~~

~~(E) Transaction Cut Off Times and Clearing House Deadlines~~

~~FCM Clearing Members should note that the deadlines quoted by the Clearing House may vary from those quoted by the delivery systems or agents.~~

~~It is each FCM Clearing Member's responsibility to ensure that they and their agents are aware of, and adhere to, the Clearing House deadlines.~~

~~(F) Delivery Procedures~~

~~(A) Deliverable Bonds~~

~~A Deliverable Bond is a bond which is listed on the final list of deliverable bonds for a delivery month as defined in the FCM Listed Interest Rates Contract Terms for the Bund Futures Contracts. The initial list of bonds will be available from the Delivery System until such time as the final list is published.~~

~~(B) Last Trading, Notice and Settlement Day Definition~~

~~The Last Trading Day, Notice Day and Settlement Day are as defined in the FCM Listed Interest Rates Contract Terms for the Bund Futures Contract. The Settlement Day is usually the tenth day of the delivery month, unless this is not a Frankfurt working day, in which case the Frankfurt working day immediately following it is the Settlement Day.~~

~~(C) Last Trading Day (LTD)~~

~~At 11:30~~

~~Trading ceases in the delivery month.~~

~~By 12:00~~

~~The FSP is announced.~~

~~By 17:00 hours – Delivery Notice Deadline~~

~~FCM Clearing Members must ensure that all give ups, take ups and settlements are performed via Synapse by the 17:00 hours deadline. FCM Clearing Members with open positions in the expired contract month are obliged to make or take delivery.~~

~~Sellers must submit a Seller's Delivery Notice to the Clearing House via the Delivery System.~~

~~At 17:30 hours~~

~~The Clearing House allocates Bunds to Buyers.~~

~~By 18:00 hours~~

~~The Clearing House makes the following available:~~

- ~~• Account Sales~~
- ~~• Invoices~~
- ~~• Delivery Instructions for Sellers~~
- ~~• Delivery Instructions for Buyers~~

~~**In order to meet the relevant deadlines, Buyers and Sellers should ensure that all Clearing House instructions are given priority by their respective Settlement Departments.**~~

~~The FCM Clearing Member shall have given instructions to, or shall have briefed their delivery agent to have given instructions to the delivery centre specified in the *Delivery Instructions for Sellers/Buyers*. The instructions as described **must** be utilised by FCM Clearing Members in order to match the instructions entered by the Clearing House.~~

~~FCM Clearing Members should endeavour to match with the Clearing House at the **earliest** possible time. The time stipulated below is the latest possible time for matching.~~

~~(D) S-1 on or before the first Frankfurt working day following the last trading day (LTD)~~

~~By 10:00 hours~~

~~FCM Clearing Members or their delivery agents shall have instructed their respective delivery system to match all instructions (stated in the *Delivery Instructions*) given by the Clearing House.~~

~~By 14:00 hours~~

~~All instructions must be matched with the Clearing House.~~

~~**Failure to match with the Clearing House contravenes Clearing House procedures.**~~

~~(E) S Settlement Day (LTD + 2)~~

~~By 08:00 hours Central European time~~

~~The Seller's delivery system or agent shall have transferred Bunds to the Clearing House's account at the relevant delivery system, against payment. The Clearing House shall have transferred Bunds to the Buyer's account at the relevant delivery system against payment.~~

~~**During Euroclear/Clearstream Luxembourg Overnight Processing**~~

~~Where the Clearing House is taking delivery of Bunds, via Euroclear or Clearstream Luxembourg, and a Seller fails to deliver Deliverable Bonds to the Clearing House in the overnight processing cycle of Euroclear or Clearstream Luxembourg, 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 Luxembourg overnight processing cycle will be passed to the defaulting Seller.~~

~~**During Clearstream Frankfurt standard cycle**~~

~~Where the Clearing House is taking delivery of Bunds via one of its Clearstream Frankfurt agents, and a Seller fails to deliver to the Clearing House Deliverable Bonds in the standard cycle, the Clearing House will attempt to borrow stock.~~

~~All costs arising as a result of failure to deliver to the Clearing House (in the standard cycle) will be passed to the defaulting Seller.~~

~~(F) S+1 The first Frankfurt working day immediately following Settlement Day (LTD + 3)~~

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

~~(d) German Government Bond (BOBL)~~

~~The following abbreviations are used in these procedures:~~

- ~~• DVP means delivery versus payment;~~
- ~~• RVP means receipt versus payment;~~

- ~~• Delivery and receipt versus payment means a transfer of Bonds, against payment of the invoicing amount specified in the FCM Listed Interest Rates Contract Terms for Bobl Futures Contracts;~~
- ~~• Euroclear – The Euroclear System; and~~
- ~~• Securities correspondent – Euroclear, Clearstream Luxembourg SA or Clearstream Frankfurt.~~

~~(A) Delivery Mechanism~~

~~Deliveries under the Bobl contract must be made or taken via accounts at one or more of the following delivery systems:~~

- ~~• Clearstream Frankfurt;~~
- ~~• Euroclear; and~~
- ~~• Clearstream Luxembourg.~~

~~Clearing House Delivery Account Details. The Clearing House's delivery agents and account details at Clearstream Frankfurt are as follows:~~

~~Deutsche Bank AG
Securities & Custody Services
PO Box 65755
Eschborn
Germany~~

~~Clearing House account number : 7077~~

~~Details of the Clearing House's accounts at Euroclear and Clearstream Luxembourg are as follows:~~

Euroclear	:	Clearing House account number 10167
Clearstream Luxembourg	:	Clearing House account number 18764

~~**The Clearing House retains the right to amend the above list without prior notification to FCM Clearing Members.**~~

~~For each delivery, FCM Clearing Members are advised of the Clearing House's delivery systems, agents, accounts and reference numbers, on the *Delivery Instructions Report*.~~

~~(B) Delivery Communication and the Delivery System~~

~~Delivery documentation must be submitted using The Delivery System. When using The Delivery System, FCM Clearing Members must always ensure they allow sufficient time to input~~

~~their delivery details within the deadlines prescribed in these procedures. Failure to do so will constitute late delivery of documentation and may be subject to disciplinary action. FCM Clearing Members experiencing difficulties should contact Client Services on +44 7426 7651.~~

~~(C) Consideration Valuation Calculation~~

~~The amounts due to Sellers from Buyers are calculated in accordance with the Bobl Futures Contract terms.~~

Consideration value per lot	= (1000 x FSP x Price Factor) + Accrued Interest
<i>Consideration Calculation Example</i>	
FSP	= 113.41
Price Factor	= 0.950491
Accrued Interest	= 2258.22
	(1000 x 113.41 x 0.950491) + 2258.22
	= EUR 110,053.40431
Consideration Value	= EUR 110,053.40

~~The consideration value is calculated using the full extent of decimal places for each component of the formula.~~

~~The invoice value of 1 lot is then established by taking the full value and rounding to the nearest Euro cent (.5 being rounded down). This per lot value is then multiplied by the number of lots to establish the total invoice value.~~

(D) Delivery Timetable

DAY	TIME	TIME	ACTION	
	LONDON	CET*	SELLERS	BUYERS
Last trading day (LTD)	11:30	12:30	Trading ceases	Trading ceases
	12:00	13:00	FSP established	FSP established
	17:00	18:00	Synapse Position Keeping deadline Sellers submit <i>Sellers Delivery Notice</i>	Synapse Position Keeping deadline
	17:30	18:30	The Clearing House performs delivery allocation	The Clearing House performs delivery allocation
	18:00	19:00	The Clearing House makes the Account Sales and Delivery Instructions Report available	The Clearing House makes the Invoices and Delivery Instructions Report available
S-1 (LTD+1)	10:00	11:00	Sellers submit DVP instructions to their custodian bank	Buyers submit RVP instructions to their custodian bank
	14:00	15:00	Sellers match the Clearing House instruction entered into delivery centre	Buyers match the Clearing House instruction entered into delivery centre
S (LTD+2)	Following standard delivery cycles	Following standard delivery cycles	The Clearing House receives confirmation of delivery	The Clearing House receives confirmation of delivery
S+1 (LTD+3)			The Clearing House releases Collateral in respect of initial and contingent margin	The Clearing House releases Collateral in respect of initial and contingent margin

* CENTRAL EUROPEAN TIME INCLUDES FRANKFURT TIME WHERE QUOTED IN THE FCM LISTED INTEREST RATES CONTRACT TERMS, RELEVANT RATES EXCHANGE RULES AND CLEARING HOUSE DELIVERY PROCEDURES.

~~(E) Transaction Cut Off Times and Clearing House Deadlines~~

~~FCM Clearing Members should note that the deadlines quoted by the Clearing House may vary from those quoted by the delivery systems or agents.~~

~~It is each FCM Clearing Member's responsibility to ensure that they and their agents are aware of, and adhere to, the Clearing House deadlines.~~

~~(F) Delivery Procedures~~

~~(A) Deliverable Bonds~~

~~A Deliverable Bond is a bond which is listed on the final list of deliverable bonds for a delivery month as defined in the FCM Listed Interest Rates Contract Terms for the Bobl Futures Contract. The initial list of bonds will be available from the Delivery System until such time as the final list is published.~~

~~(B) Last Trading, Notice and Settlement Day Definition~~

~~The Last Trading Day, Notice Day and Settlement Day are as defined in the FCM Listed Interest Rates Contract Terms for the Bobl Futures Contract. The Settlement Day is usually the tenth day of the delivery month, unless this is not a Frankfurt working day, in which case the Frankfurt working day immediately following it is the Settlement Day.~~

~~(C) Last Trading Day (LTD)~~

~~At 11:30~~

~~Trading ceases in the delivery month.~~

~~By 12:00~~

~~The FSP is announced.~~

~~By 17:00 hours – Delivery Notice Deadline~~

~~FCM Clearing Members must ensure that all give-ups, take-ups and settlements are performed via Synapse by the 17:00 hours deadline. FCM Clearing Members with open positions in the expired contract month are obliged to make or take delivery.~~

~~Sellers must submit a Seller's Delivery Notice to the Clearing House via the Delivery System.~~

~~At 17:30 hours~~

~~The Clearing House allocates deliveries to Buyers.~~

~~By 18:00 hours~~

~~The Clearing House makes the following available:~~

- ~~• Account Sales~~
- ~~• Invoices~~
- ~~• Delivery Instructions for Sellers~~
- ~~• Delivery Instructions for Buyers~~

~~**In order to meet the relevant deadlines, Buyers and Sellers should ensure that all Clearing House instructions are given priority by their respective Settlement Departments.**~~

~~The FCM Clearing Member shall have given instructions to, or shall have briefed their delivery agent to have given instructions to the delivery centre specified in the *Delivery Instructions for Sellers/Buyers*. The instructions as described **must** be utilised by FCM Clearing Members in order to match the instructions entered by the Clearing House.~~

~~FCM Clearing Members should endeavour to match with the Clearing House at the **earliest** possible time. The time stipulated below is the latest possible time for matching.~~

~~(D) S-1 on or before the first Frankfurt working day following the last trading day (LTD)~~

~~By 10:00 hours~~

~~FCM Clearing Members or their delivery agents shall have instructed their respective delivery system to match all instructions (stated in the *Delivery Instructions*) given by the Clearing House.~~

~~By 14:00 hours~~

~~All instructions must be matched with the Clearing House.~~

~~**Failure to match with the Clearing House contravenes Clearing House procedures.**~~

~~(E) S-Settlement Day (LTD + 2)~~

~~By 08:00 hours Central European time~~

~~The Seller's delivery system or agent shall have transferred Bonds to the Clearing House's account at the relevant delivery system, against payment. The Clearing House shall have transferred Bonds to the Buyer's account at the relevant delivery system against payment.~~

~~**During Euroclear/Clearstream Luxembourg Overnight Processing**~~

~~Where the Clearing House is taking delivery of Bonds, via Euroclear or Clearstream Luxembourg, and a Seller fails to deliver Deliverable Bonds to the Clearing House in the overnight processing cycle of Euroclear or Clearstream Luxembourg, 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 Luxembourg overnight processing cycle will be passed to the defaulting Seller.~~

~~**During Clearstream Frankfurt standard cycle**~~

~~Where the Clearing House is taking delivery of Bonds via one of its Clearstream Frankfurt agents, and a Seller fails to deliver to the Clearing House Deliverable Bonds in the standard cycle, the Clearing House will attempt to borrow stock.~~

~~All costs arising as a result of failure to deliver to the Clearing House (in the standard cycle) will be passed to the defaulting Seller.~~

~~(F) S+1 The first Frankfurt working day immediately following Settlement Day (LTD + 3)~~

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

~~(e) German Government Bond (Schatz)~~

~~The following abbreviations are used in these procedures:~~

- ~~• DVP means delivery versus payment;~~
- ~~• RVP means receipt versus payment;~~

- ~~• Delivery and receipt versus payment means a transfer of Bonds, against payment of the invoicing amount specified in the FCM Listed Interest Rates Contract Terms for Schatz Futures Contracts;~~
- ~~• Euroclear – The Euroclear System; and~~
- ~~• Securities correspondent – Euroclear, Clearstream Luxembourg SA or Clearstream Frankfurt.~~

~~(A) Delivery Mechanism~~

~~Deliveries under the Schatz contract must be made or taken via accounts at one or more of the following delivery systems:~~

- ~~• Clearstream Frankfurt;~~
- ~~• Euroclear; and~~
- ~~• Clearstream Luxembourg.~~

~~Clearing House Delivery Account Details. The Clearing House's delivery agents and account details at Clearstream Frankfurt are as follows:~~

~~Deutsche Bank AG
Securities & Custody Services
PO Box 65755
Eschborn
Germany~~

~~Clearing House account number ÷ 7077~~

~~Details of the Clearing House's accounts at Euroclear and Clearstream Luxembourg are as follows:~~

Euroclear	÷	Clearing House account number 10167
Clearstream Luxembourg	÷	Clearing House account number 18764

~~**The Clearing House retains the right to amend the above list without prior notification to FCM Clearing Members.**~~

~~For each delivery, FCM Clearing Members are advised of the Clearing House's delivery systems, agents, accounts and reference numbers, on the *Delivery Instructions Report*.~~

~~(B) Delivery Communication and the Delivery System~~

~~Delivery documentation must be submitted using The Delivery System. When using The Delivery System, FCM Clearing Members must always ensure they allow sufficient time to input their delivery details within the deadlines prescribed in these procedures. Failure to do so will constitute late delivery of documentation and may be subject to disciplinary action. FCM Clearing Members experiencing difficulties should contact Client Services on +44 7426 7651.~~

~~(C) Consideration Valuation Calculation~~

~~The amounts due to Sellers from Buyers, are calculated in accordance with the FCM Listed Interest Rates Contract Terms for Schatz Futures Contracts.~~

$$\text{Consideration value per lot} = (1000 \times \text{FSP} \times \text{Price Factor}) + \text{Accrued Interest}$$

Consideration Calculation Example

$$\begin{aligned} \text{FSP} &= 113.41 \\ \text{Price Factor} &= 0.950491 \\ \text{Accrued Interest} &= 2258.22 \end{aligned}$$

$$(1000 \times 113.41 \times 0.950491) + 2258.22$$

$$= \text{EUR } 110,053.40431$$

$$\text{Consideration Value} = \text{EUR } 110,053.40$$

~~The consideration value is calculated using the full extent of decimal places for each component of the formula.~~

~~The invoice value of **1 lot** is then established by taking the full value and rounding to the nearest Euro cent (.5 being rounded down). This **per** lot value is then multiplied by the number of lots to establish the total invoice value.~~

(D) Delivery Timetable

DAY	TIME	TIME	ACTION	
	LONDON	CET*	SELLERS	BUYERS
Last trading day (LTD)	11:30	12:30	Trading ceases	Trading ceases
	12:00	13:00	FSP established	FSP established
	17:00	18:00	Synapse Position Keeping deadline Sellers submit <i>Sellers Delivery Notice</i>	Synapse Position Keeping deadline
	17:30	18:30	The Clearing House performs delivery allocation	The Clearing House performs delivery allocation
	18:00	19:00	The Clearing House makes the Account Sales and Delivery Instructions Report available	The Clearing House makes the Invoices and Delivery Instructions Report available
S-1 (LTD+1)	10:00	11:00	Sellers submit DVP instructions to their custodian bank	Buyers submit RVP instructions to their custodian bank
	14:00	15:00	Sellers match the Clearing House instruction entered into delivery centre	Buyers match the Clearing House instruction entered into delivery centre
S (LTD+2)	Following standard delivery cycles	Following standard delivery cycles	The Clearing House receives confirmation of delivery	The Clearing House receives confirmation of delivery
S+1 (LTD+3)			The Clearing House releases Collateral in respect of initial and contingent margin	The Clearing House releases Collateral in respect of initial and contingent margin

~~* CENTRAL EUROPEAN TIME INCLUDES FRANKFURT TIME WHERE QUOTED IN THE FCM LISTED INTEREST RATES CONTRACT TERMS, RELEVANT RATES EXCHANGE RULES AND CLEARING HOUSE DELIVERY PROCEDURES.~~

~~(E) Transaction Cut Off Times and Clearing House Deadlines~~

~~FCM Clearing Members should note that the deadlines quoted by the Clearing House may vary from those quoted by the delivery systems or agents.~~

~~It is each FCM Clearing Member's responsibility to ensure that they and their agents are aware of, and adhere to, the Clearing House deadlines.~~

~~(F) Delivery Procedures~~~~(A) Deliverable Bonds~~

~~A Deliverable Bond is a bond which is listed on the final list of deliverable bonds for a delivery month as defined in the FCM Listed Interest Rates Contract Terms for the Schatz Futures Contract. The initial list of bonds will be available from the Delivery System until such time as the final list is published.~~

~~(B) Last Trading, Notice and Settlement Day Definition~~

~~The Last Trading Day, Notice Day and Settlement Day are as defined in the FCM Listed Interest Rates Contract Terms for the Schatz Futures Contract. The Settlement Day is usually the tenth day of the delivery month, unless this is not a Frankfurt working day, in which case the Frankfurt working day immediately following it is the Settlement Day.~~

~~(C) Last Trading Day (LTD)~~

~~At 11:30~~

~~Trading ceases in the delivery month.~~

~~By 12:00~~

~~The FSP is announced.~~

~~By 17:00 hours – Delivery Notice Deadline~~

~~FCM Clearing Members must ensure that all give ups, take ups and settlements are performed via Synapse by the 17:00 hours deadline. FCM Clearing Members with open positions in the expired contract month are obliged to make or take delivery.~~

~~Sellers must submit a Seller's Delivery Notice to the Clearing House via the Delivery System.~~

~~At 17:30 hours~~

~~The Clearing House allocates deliveries to Buyers.~~

~~By 18:00 hours~~

~~The Clearing House makes the following available:~~

- ~~• Account Sales~~
- ~~• Invoices~~
- ~~• Delivery Instructions for Sellers~~
- ~~• Delivery Instructions for Buyers~~

~~In order to meet the relevant deadlines, Buyers and Sellers should ensure that all Clearing House instructions are given priority by their respective Settlement Departments.~~

~~The FCM Clearing Member shall have given instructions to, or shall have briefed their delivery agent to have given instructions to the delivery centre specified in the *Delivery Instructions for Sellers/Buyers*. The instructions as described **must** be utilised by FCM Clearing Members in order to match the instructions entered by the Clearing House.~~

~~FCM Clearing Members should endeavour to match with the Clearing House at the **earliest** possible time. The time stipulated below is the latest possible time for matching.~~

~~(D) S-1 on or before the first Frankfurt working day following the last trading day (LTD)~~

~~By 10:00 hours~~

~~FCM Clearing Members or their delivery agents shall have instructed their respective delivery system to match all instructions (stated in the *Delivery Instructions*) given by the Clearing House.~~

~~By 14:00 hours~~

~~All instructions must be matched with the Clearing House.~~

~~**Failure to match with the Clearing House contravenes Clearing House procedures and the FCM Listed Interest Rates Contract Terms for the Schatz Future Contract.**~~

~~(E) S Settlement Day (LTD + 2)~~

~~By 08:00 hours Central European time~~

~~The Seller's delivery system or agent shall have transferred Bonds to the Clearing House's account at the relevant delivery system, against payment. The Clearing House shall have transferred Bonds to the Buyer's account at the relevant delivery system against payment.~~

~~**During Euroclear/Clearstream Luxembourg Overnight Processing**~~

~~Where the Clearing House is taking delivery of Bonds, via Euroclear or Clearstream Luxembourg, and a Seller fails to deliver Deliverable Bonds to the Clearing House in the overnight processing cycle of Euroclear or Clearstream Luxembourg, 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 Luxembourg overnight processing cycle will be passed to the defaulting Seller.~~

~~**During Clearstream Frankfurt standard cycle**~~

~~Where the Clearing House is taking delivery of Bonds via one of its Clearstream Frankfurt agents, and a Seller fails to deliver to the Clearing House Deliverable Bonds in the standard cycle, the Clearing House will attempt to borrow stock.~~

~~All costs arising as a result of failure to deliver to the Clearing House (in the standard cycle) will be passed to the defaulting Seller.~~

~~(F) S+1 The first Frankfurt working day immediately following Settlement Day (LTD + 3)~~

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

~~(f) U.S. Treasury Securities Futures~~

~~(A) Interpretation~~

~~All days are U.S. business days.~~

~~All times shown are London time and the twenty-four hour clock is used.~~

~~A "qualified bank" shall mean a U.S. commercial bank (either Federal or State charter) that is a member of the Federal Reserve System and that has capital (capital, surplus and undivided~~

~~earnings) in excess of one hundred million dollars (\$100,000,000).~~

~~(B) Consideration Value Calculation~~

~~The amount due to Sellers and payable by Buyers is calculated in accordance with the FCM Listed Interest Rates Contract Terms for U.S. Treasury Securities Futures (all values in USD):~~

Consideration value per lot	=	(1000 x FSP x Price Factor) + Accrued Interest
<i>Consideration Calculation Example</i>		
FSP	=	113.41
Price Factor	=	0.950491
Accrued Interest	=	2258.22
		(1000 x 113.41 x 0.950491) + 2258.22
	=	110,053.40431
Consideration Value	=	110,053.40

~~The Clearing House establishes the consideration amount by calculating the full value of 1 lot using the formula (i.e. up to 7 decimal places on the price factor and 5 on the FSP) and rounding to the nearest whole penny (.5 rounded down). This per lot value is then multiplied by the number of lots to establish a preliminary consideration value. The Clearing House then applies, as relevant, execution costs, penalties, and/or late delivery fees to establish the total consideration value.~~

~~(C) Delivery Procedures~~

~~(A) Date of Delivery~~

~~Delivery of contract grade U.S. Treasury securities may be made by a Seller, upon any business day of the contract delivery month that the Seller may select. The contract delivery month shall be derived so as to commence on, and to include, the first business day of the contract's named month of expiration, and to extend to, and to include, the last business day of the contract's named month of expiration.~~

~~(B) Deliveries on Expiring U.S. Treasury Securities Futures Contracts~~

~~Deliveries against expiring contracts shall be by book-entry transfer between accounts of FCM Listed Interest~~

~~Rates Clearing Members in accordance with Applicable Law:~~

~~Deliveries against an expiring contract can be made no earlier than the first business day of the contract's named month of expiration, and no later than the last business day of the contract's named month of expiration.~~

~~All deliveries must be assigned by the Clearing House.~~

~~(C) Day of Intention~~

~~No later than 21:00 hours on the second business day preceding the intended day of delivery, the Seller must tender to the Clearing House all notices of intention to make delivery such as it has received from its FCM Clients who are short.~~

~~Where an FCM Listed Interest Rates Clearing Member, has both long and short interests for any of its FCM Clients, it must tender all such notices of intention to deliver. No office deliveries may be made by an FCM Listed Interest Rates Clearing Member.~~

~~To each Seller who has issued a notice of intention to make delivery, the Clearing House shall assign Buyers who shall be obligated to take delivery. Upon making such assignment, the Clearing House shall promptly furnish to each Seller making delivery the names of the Buyer(s) assigned to take delivery from such Seller(s) and shall also inform the Seller(s) of the number of contracts for which each Buyer is obligated.~~

~~(D) Day of Delivery~~

~~No later than 13:30 hours on the day of delivery, the Buyer must make funds available, and must notify its bank to accept contract grade U.S. Treasury securities and to remit federal funds to the account of the Seller, at the Seller's bank.~~

~~In the event the Buyer does not agree with the terms of the invoice received from the Seller making delivery, the Buyer must notify the Seller, and the dispute must be settled no later than 15:30 hours on the day of delivery.~~

~~No later than 16:00 hours on the day of delivery, the Seller must have contract grade U.S. Treasury securities in place at its bank, in delivery form that is acceptable to its bank, and must notify its bank to transfer said U.S. Treasury securities by book entry, on a delivery versus payment~~

~~basis, to the account of the Buyer taking delivery, at the Buyer's bank.~~

~~No later than 19:00 hours on the day of delivery, contract grade U.S. Treasury securities must be transferred, and payment must be made.~~

~~(E) Seller's Invoice Notification to Buyer~~

~~(1) Invoice Terms~~

~~The Clearing House shall prepare invoices addressed to each Buyer assigned to take delivery from a Seller. Said invoices shall:~~

~~(a) identify the U.S. Treasury securities that the Seller shall tender to said Buyer; and~~

~~(b) show the amounts which said Buyer must pay to said Seller in settlement of the actual delivery of said U.S. Treasury securities, based on the delivery prices established by the Clearing House, and adjusted for accrued interest.~~

~~(2) Day of Notification~~

~~In the case of deliveries to be made prior to the last permissible day of delivery, each Seller making delivery shall submit said invoices to the Clearing House by 22:00 hours on the business day preceding the day of delivery. In the case of deliveries to be made on the last permissible day of delivery, the Seller shall submit such invoices to the Clearing House by 22:00 hours on the business day preceding the day of delivery. Upon receipt of such invoices, the Clearing House shall promptly furnish them to the Buyers to whom they are addressed.~~

~~(F) Buyer's Banking Notification to Seller~~

~~The Clearing House will require the Buyer's banking details and payment instructions prior to 22:00 hours on the business day preceding the day of delivery.~~

~~No later than by 22:00 hours on the business day preceding the day of delivery, the Clearing House shall provide the Seller making delivery with a Banking Notification form which shall include:~~

~~(a) date of delivery;~~

~~(b) identification number and name of the Buyer taking delivery;~~

~~(c) notification number of the Clearing House delivery assignment;~~

~~(d) identification number and name of the Seller making delivery;~~

~~(e) quantity of the contract being delivered; and~~

~~(f) the Buyer's bank, account number, and specific Federal Wire instructions for the transfer of U.S. Treasury securities.~~

~~(G) Payment~~

~~No later than 19:00 hours on the day of delivery, the Buyer assigned to take delivery must take delivery and make payment. In the case of banking holidays, said Buyer must take delivery and make payment on the next banking business day.~~

~~Payment shall be made in federal funds on a delivery versus payment basis. That is, payment shall not be made until the U.S. Treasury securities to be tendered for delivery are delivered. Adjustments for differences between contract prices and delivery prices established by the Clearing House shall be made with the Clearing House in accordance with its rules, policies, and procedures.~~

~~(H) Wire Failure~~

~~In the event that delivery cannot be accomplished because of a failure of the Federal Reserve wire or due to an unexpected holiday, or because of a failure of either the Buyer's bank or the Seller's bank to access the Federal Reserve wire, delivery shall be made before 14:30 hours on the next business day on which the Federal Reserve wire, or bank access to it, is operable.~~

~~In the event of such failure, the Seller making delivery shall remit to the Buyer taking delivery such interest on the U.S. Treasury securities being delivered as accrues between the day on which the bonds were originally to be delivered and the day on which the bonds are actually delivered. Both the Buyer and the Seller must provide to the Clearing House documented evidence that they gave instructions to their respective banks.~~

**SCHEDULE 2.3A
DELIVERABLE BOND FUTURES FORMS**

**FORM-1
ACCOUNT SALE**

06-Mar-2014

LCH LIMITED
10 Paternoster Square, London EC4M 7LS

Clearing Member : AAA Subaccount : House

Ref Id : 3

AAA FUTURES LTD
TENDER HOUSE
FENCHURCH STREET
LONDON EC3 4DR

In a/c with LCH Limited

LONG GILT FUTURE

Delivery Month : MAR-2014 Settlement Date : 10-MAR-2014

Tendered in fulfilment of 104 lots of:

Stock Code : GB0009997114
Coupon Rate : 5.250%
Maturity Date : 07-Dec-2020

Nominal Value : GBP 10,400,000.00
EDSP : 107.41
Price Factor : 1.2554334
Initial Accrued : 1746.58
Delivery Days @ : 17.1233
Total Daily Accrued : 171.233

Countervalue : GBP 14223446.64

E. & O.E.



FORM-2
INVOICE (GILTS)

06-Mar-2014

LCH LIMITED

~~10 Paternoster Square, London EC4M 7LS~~

Clearing Member ÷ AAA Subaccount ÷ House

Ref Id ÷ 3

AAA FUTURES LTD
TENDER HOUSE
FENCHURCH STREET
LONDON EC3 4DR

In a/c with LCH Limited

LONG GILT FUTURE

Delivery Month ÷ MAR-2014 Settlement Date ÷ 10-MAR-2014

Tendered in fulfilment of 104 lots of:-

Stock Code ÷ GB0009997114
Coupon Rate ÷ 5.250%
Maturity Date ÷ 07-Dec-2020

Nominal Value	÷	GBP	10,400,000.00
EDSP	÷		107.41
Price Factor	÷		1.2554334
Initial Accrued	÷		1746.58
Delivery Days @	÷		17.1233
Total Daily Accrued	÷		171.233
Countervalue	÷	GBP	14223446.64

E. & O.E.



**FORM 3
LONG GILT FUTURE DELIVERY INSTRUCTION FOR SELLERS (GILTS)**

06-MAR-2014

LCH LIMITED
10 Paternoster Square, London EC4M 7LS

Delivery Month:	MAR-2014				
Clearing Member:	AAA	Subaccount:	Client	Delivery to the Clearing House at CREST	
				From Clearing Member's Del-Centre	÷ CREST
AAA FUTURES LTD				Account No	÷ 92506
TENDER HOUSE				Account Name	÷ AAA
FENCHURCH STREET					
LONDON					
FUTURES					
FSP	÷ 107.41			Notice Date	÷ 06-MAR-2014
Currency Id:	÷ GBP				
Settlement Date	÷ 10-MAR-2014				

Instr.	Clearing House Agent Name	Clearing House Account No	Countervalue	Stock Code	Nominal Value	Lots
	CREST	5172	14223446.64	GB0009997114	10,400,000.00	104

E. & O.E

FORM-4

~~LONG GILT FUTURE DELIVERY INSTRUCTION FOR BUYERS (GILTS)~~~~06 MAR 2014~~

LCH LIMITED

~~10 Paternoster Square, London EC4M 7LS~~

Delivery Month: MAR 2014

Delivery to the Clearing House at CREST

Clearing Member: AAA Subaccount: Client

To Clearing Member's Del Centre ÷ CREST

AAA FUTURES LTD

TENDER HOUSE

FENCHURCH STREET

LONDON

Account No ÷ 92506

Account Name ÷ AAA FUTURES

FSP ÷ 107.41

Notice Date ÷ 06 MAR 2014

Currency Id: ÷ GBP

Settlement Date ÷ 10 MAR 2014

Instr.	Clearing House Agent Name	Clearing House Account No	Countervalue	Stock Code	Nominal Value	Lots
	CREST	5172	14223446.64	GB0009997114	10,400,000.00	104

E. & O.E

FORM-5
ACCOUNT SALE (EURO BUND)

06 JUN 2014

LCH LIMITED

10 Paternoster Square, London EC4M 7LS

Clearing Member	÷	AAA	Subaccount	÷	House
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Ref Id	÷	3
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AAA FUTURES LTD
TENDER HOUSE
FENCHURCH STREET
LONDON EC3 4DR

In a/c with LCH Limited

GERMAN GOVT. BOND (EURO BUND) FUTURE

Delivery Month	÷	JUN 2014	Settlement Date	÷	10 JUN 2014
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Tendered in fulfilment of 203 lots of:

Stock Code	÷	DE0001135051
Coupon Rate	÷	5.250%
Maturity Date	÷	04 JAN 2023

Nominal Value	÷	EUR	20,300,000.00
EDSP	÷		113.41
Price Factor	÷		0.950491
Accrued Interest	÷		2258.22
Countervalue	÷	EUR	22,340,840.20

E. & O.E.



**FORM-6
INVOICE (EURO BUND)**

06 JUN 2014

LCH LIMITED

10 Paternoster Square, London EC4M 7LS

Clearing Member	÷	AAA	Subaccount	÷	House
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Ref Id	÷	3
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AAA FUTURES LTD
TENDER HOUSE
FENCHURCH STREET
LONDON EC3 4DR

In a/c with LCH Limited

GERMAN GOVT. BOND (EURO BUND) FUTURE

Delivery Month	÷	JUN 2014	Settlement Date	÷	10 JUN 2014
----------------	---	----------	-----------------	---	-------------

Tendered in fulfilment of 203 lots of:

Stock Code	÷	DE0001135051
Coupon Rate	÷	5.250%
Maturity Date	÷	04 JAN 2023

Nominal Value	÷	EUR	20,300,000.00
EDSP	÷		113.41
Price Factor	÷		0.950491
Accrued Interest	÷		2258.22
Countervalue	÷	EUR	22,340,840.02

E. & O.E.

FORM-7

GERMAN GOVT. BOND (EURO BUND) FUTURE DELIVERY INSTRUCTION FOR SELLERS (EURO BUND)

06 JUN 2014

LCH LIMITED

10 Paternoster Square, London EC4M 7LS

Delivery Month:	JUN 2014						
Clearing Member:	AAA	Subaccount:	Client		Delivery to the Clearing House at CED		
					From Clearing Member's Del Centre	:	CED
	AAA FUTURES LTD				Agent Name	:	Clearstream
	TENDER HOUSE						Luxemburg
	FENCHURCH STREET				Agent No	:	
	LONDON				Account Name	:	AAA FUTURES
					Account No	:	40256
					Notice Date	:	06 JUN 2014
FSP	:	113.41					
Currency Id:	:	EUR					
Settlement Date	:	10 JUN 2014					

Instr.	Clearing House Agent Name	Clearing House Agent No	Clearing House Account No	Countervalue	Stock Code	Nominal Value	Lots
51	Clearstream Luxemburg		18764	22,340,840.20	DE0001135051	20,300,000.00	203

E. & O.E

FORM-8

GERMAN GOVT. BOND (EURO BUND) FUTURE DELIVERY INSTRUCTION FOR BUYERS (EURO BUND)

06 JUN 2014

LCH LIMITED

10 Paternoster Square, London EC4M 7LS

Delivery from the Clearing House at CED

Delivery Month: JUN 2014

Clearing Member: AAA Subaccount: Client

To Clearing Member's Delivery Centre : CED

AAA FUTURES LTD
TENDER HOUSE
FENCHURCH STREET
LONDON

Agent Name : Clearstream Luxembourg
Agent No :
Account Name : AAA FUTURES
Account No : 40256

FSP : 113.41

Notice Date : 06 JUN 2014

Currency Id: : EUR

Settlement Date : 10 JUN 2014

Instr.	Clearing House Agent Name	Clearing House Agent No	Clearing House Account No	Countervalue	Stock Code	Nominal Value	Lots
41	Clearstream Luxembourg		18764	22,340,840.20	DE0001135051	20,300,000.00	203

E. & O.E

FORM-9
ACCOUNT SALE (BOBL)

08-SEP-2014

LCH LIMITED

10 Paternoster Square, London EC4M 7LS

Clearing Member : AAA Subaccount : House

Ref Id : 3

AAA FUTURES LTD
TENDER HOUSE
FENCHURCH STREET
LONDON EC3 4DR

In a/c with LCH Limited

GERMAN GOVT. BOND (BOBL) FUTURE

Delivery Month : SEP-2014 Settlement Date : 10-SEP-2014

Tendered in fulfilment of 203 lots of:

Stock Code : DE0001135052

Coupon Rate : 5.250%

Maturity Date : 04-APR-2019

Nominal Value : EUR 20,300,000.00

EDSP : 113.41

Price Factor : 0.950491

Accrued Interest : 2258.22

Countervalue : EUR 22,340,840.20

E. & O.E.

**FORM-10
INVOICE**

08-SEP-2014

LCH LIMITED

10 Paternoster Square, London EC4M 7LS

Clearing Member : AAA Subaccount : House

Ref Id : 3

AAA FUTURES LTD
TENDER HOUSE
FENCHURCH STREET
LONDON EC3 4DR

In a/c with LCH Limited

GERMAN GOVT. BOND (BOBL) FUTURE

Delivery Month : SEP-2014 Settlement Date : 10-SEP-2014

Tendered in fulfilment of 203 lots of:

Stock Code : DE0001135052
Coupon Rate : 5.250%
Maturity Date : 04-APR-2019

Nominal Value	:	EUR	20,300,000.00
EDSP	:		113.41
Price Factor	:		0.950491
Accrued Interest	:		2258.22
Countervalue	:	EUR	22,340,840.20

E. & O.E.

**FORM-11
BOBL FUTURE DELIVERY INSTRUCTION FOR SELLERS**

08-SEP-2014

LCH LIMITED
10 Paternoster Square, London EC4M 7LS

Delivery Month:	SEP-2014	Delivery to the Clearing House at CED
Clearing Member:	AAA Subaccount: Client	From Clearing Members Del Centre : CED
AAA FUTURES LTD		Agent Name : Clearstream Luxembourg
TENDER HOUSE		Agent No :
FENCHURCH STREET		Account Name : AAA-FUTURES
LONDON		Account No : 40256
FSP :	113.41	Notice Date : 08-SEP-2014
Currency Id:	EUR	
Settlement Date	10-SEP-2014	

Instr.	Clearing House Agent Name	Clearing House Agent No	Clearing House Account No	Countervalue	Stock Code	Nominal Value	Lots
51	Clearstream Luxembourg		18764	22,340,840.20	DE0001135051	20,300,000.00	203

E. & O.E



**FORM-12
BOBL-FUTURE DELIVERY INSTRUCTION FOR BUYERS (BOBL)**

08-SEP-2014

LCH LIMITED
10 Paternoster Square, London EC4M 7LS

Delivery Month:	SEP							
2014								
Clearing Member:	AAA	Subaccount:						Delivery from the Clearing House at CED
		Client						
AAA FUTURES LTD								To Clearing Member's Delivery : CED
TENDER HOUSE								Centre
FENCHURCH STREET								Agent Name : Clearstream Luxembourg
LONDON								Agent No :
								Account Name : AAA FUTURES
								Account No : 40256
								Notice Date : 08-SEP-2014
FSP		:	113.41					
Currency Id:		:	EUR					
Settlement Date		:	10-SEP-2014					

Instr.	Clearing House Agent Name	Clearing House Agent No	Clearing House Account No	Countervalue	Stock Code	Nominal Value	Lots
41	Clearstream Luxembourg		18764	22,340,840.20	DE0001135052	20,300,000.00	203

E. & O.E

FORM-13
ACCOUNT SALE (SCHATZ)

08-SEP-2014

LCH LIMITED
10 Paternoster Square, London EC4M 7LS

Clearing Member ÷ AAA Subaccount ÷ House

Ref Id ÷ 3

AAA FUTURES LTD
TENDER HOUSE
FENCHURCH STREET
LONDON
EC3 4DR

In a/c with LCH Limited

GERMAN GOVT. BOND (SCHATZ) FUTURE

Delivery Month ÷ SEP-2014 Settlement Date ÷ 10-SEP-2014

Tendered in fulfilment of 203 lots of:-

Stock Code ÷ DE0001135053
Coupon Rate ÷ 5.250%
Maturity Date ÷ 04-AUG-2016

Nominal Value ÷ EUR 20,300,000.00
EDSP ÷ 113.41
Price Factor ÷ 0.950491
Accrued Interest ÷ 2258.22

Countervalue ÷ EUR 22,340,840.20

E. & O.E.

**FORM-14
INVOICE (SCHATZ)**

08-SEP-2014

LCH LIMITED

~~10 Paternoster Square, London EC4M 7LS~~

Clearing Member ÷ AAA Subaccount ÷ House

Ref Id ÷ 3

~~AAA FUTURES LTD
TENDER HOUSE
FENCHURCH STREET
LONDON
EC3 4DR~~

In a/c with LCH Limited

~~GERMAN GOVT. BOND (SCHATZ) FUTURE~~

Delivery Month ÷ SEP-2014 Settlement Date ÷ 10-SEP-2014

Tendered in fulfilment of 203 lots of:-

Stock Code ÷ DE0001135053
Coupon Rate ÷ 5.250%
Maturity Date ÷ 04-AUG-2016

Nominal Value ÷ EUR 20,300,000.00
EDSP ÷ 113.41
Price Factor ÷ 0.950491
Accrued Interest ÷ 2258.22

Countervalue ÷ EUR 22,340,840.20

E. & O.E.

FORM 15

SCHATZ FUTURE DELIVERY INSTRUCTION FOR SELLERS (SCHATZ)

08-SEP-2014

LCH LIMITED

10 Paternoster Square, London EC4M 7LS

Delivery Month: SEP 2014

Delivery to the Clearing House at CED

Clearing Member: AAA
Subaccount: t
Client

From Clearing Member's Del Centre : CED

AAA FUTURES LTD
TENDER HOUSE
FENCHURCH STREET
LONDON

Agent Name : Clearstream
Luxemburg

Agent No :
Account Name : AAA
FUTURES
Account No : 40256
Notice Date : 08-SEP-2014

FSP : 113.41
Currency Id: : EUR
Settlement Date : 10-SEP-2014

Ins tr.	Clearing House Agent Name	Clearing House Agent No	Clearing House Account No	Country value	Stock Code	Nominal Value	Lots
54	Clearstream Luxemburg		18764	22,340,84 0.20	DE0001 135053	20,300,00 0.00	20 3

E. & O.E

FORM-16

SCHATZ FUTURE DELIVERY INSTRUCTION FOR BUYERS

08-SEP-2014

LCH LIMITED

10 Paternoster Square, London EC4M 7LS

Delivery Month:	SEP-2014	Delivery to the Clearing House at CED
Clearing Member:	Subaccount: AAA	From Clearing Member's Del Centre : CED
	Client: ‡	Agent Name : Clearstream Luxembourg
AAA FUTURES LTD TENDER HOUSE FENCHURCH STREET LONDON		Agent No : Account Name : AAA FUTURES Account No : 40256 Notice Date : 08-SEP-2014
FSP :	113.41	
Currency Id:	EUR	
Settlement Date :	10-SEP-2014	

Ins tr.	Clearing House Agent Name	Clearing House Agent No	Clearing House Account No	Counter value	Stock Code	Nominal Value	Lots
41	Clearstream Luxembourg		18764	22,340,84 0.20	DE00011 35053	20,300,00 0.00	20 3

E. & O.E

NOTE - ADD US BOND FUTURE FORMS



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Appendix IV
Procedure Section 1
Changed Pages

LCH LIMITED

PROCEDURES SECTION 1

**CLEARING MEMBER, NON-MEMBER MARKET
PARTICIPANT AND DEALER STATUS**

comply with the requirements of 12 U.S.C. § 5390(a)(6) with respect to the execution of the Clearing Membership Agreement and each transaction that is cleared pursuant to the Clearing Membership Agreement and the Rulebook (and the grant of any related security interest to the Clearing House) and it shall be deemed to have confirmed that it complies with 12 U.S.C. § 5390(a)(6) each time that a transaction is submitted for clearing and it delivers Collateral to the Clearing House.

A Clearing Member that is a financial company as such term is defined in 12 U.S.C. § 5381(a)(11) is further required: (i) from the date of entry into the Clearing Membership Agreement (and the grant of any related security interest to the Clearing House), to maintain the Clearing Membership Agreement continuously as an official record of that Clearing Member; and (B) from the date of submission of a transaction for clearing (and the grant of any related security interest to the Clearing House), maintain each agreement evidencing each such transaction continuously as an official record of that Clearing Member.

- (b) *Insured Depository Institutions:* Where a Clearing Member is an insured depository institution under the U.S. Federal Deposit Insurance Act it shall comply with the requirements of 12 U.S.C. § 1823(e) and the policy statements adopted by the Board of Directors of the Federal Deposit Insurance Corporation thereunder with respect to the execution of the Clearing Membership Agreement and each transaction that is cleared pursuant to the Clearing Membership Agreement and the Rulebook (and the grant of any related security interest to the Clearing House) and it shall be deemed to have confirmed that it complies with the requirements of 12 U.S.C. § 1823(e) and the policy statements adopted by the Board of Directors of the Federal Deposit Insurance Corporation thereunder each time that a transaction is submitted for clearing and that Clearing Member delivers Collateral to the Clearing House.

A Clearing Member that is an insured depository institution under the Federal Deposit Insurance Act it is further required: (i) from the date of entry into the Clearing Membership Agreement (and the grant of any related security interest to the Clearing House), to maintain the Clearing Membership Agreement continuously as an official record of that Clearing Member; and (B) from the date of submission of a transaction for clearing (and the grant of any related security interest to the Clearing House), maintain each agreement evidencing each such transaction continuously as an official record of that Clearing Member.

1.3.8 [Supplementary Criteria Applicable to Listed Interest Rates Clearing Member Applicant](#)

Only Clearing Members that are incorporated under the laws of any state of the United States or under the federal laws of the United States are eligible to be Listed Interest Rates Clearing Members.



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Appendix V
Default Rules
Changed Pages

**DEFAULT RULES OF
LCH LIMITED**

- (iii) in the case of ForexClear Contracts related to ForexClear Clearing House Business and ForexClear Contracts which are Relevant Auction Contracts, the Clearing House: (A) shall act in accordance with the provisions of the ForexClear DMP Annex to these Default Rules (which deals, amongst other things, with certain specific arrangements, procedures and steps for the close-out and/or settlement of such ForexClear Contracts pursuant to this Rule 6); and (B) may also take any of the other steps set out in this Rule 6 to the extent that they do not conflict with the steps set out in the ForexClear DMP Annex to these Default Rules; and
- (iv) in the case of Fixed Income Contracts related to RepoClear Clearing House Business and Fixed Income Contracts which are Relevant Auction Contracts, the Clearing House: (A) shall act in accordance with the provisions of the RepoClear DMP Annex to these Default Rules (which deals, amongst other things, with certain specific arrangements, procedures and steps for the close-out and/or settlement of such Fixed Income Contracts pursuant to this Rule 6); and (B) may also take any of the other steps set out in this Rule 6 to the extent that they do not conflict with the steps set out in the RepoClear DMP Annex to these Default Rules.

7.

- (a) Where the Clearing House declares the Defaulter's rights and liabilities under an open contract subject to tender (or an FCM Exchange Contract Subject to Delivery Notice) discharged under Rule 6(k):
 - (i) those rights and liabilities and the rights and liabilities of the Clearing House under the open contract shall be discharged; and
 - (ii) there shall arise between the Defaulter and the Clearing House in respect of the open contract an obligation to account, as directed by the Clearing House, for a settlement amount determined by the relevant Board under this Rule.
- (b) The settlement amount referred to in Rule 7(a) shall be an amount which, at the request of the Clearing House, the relevant Board determines to represent adequate compensation (in the circumstances known to the Board) for the discharge of the mutual rights and liabilities of the Defaulter and the Clearing House under the open contract. The determination of the Board shall be conclusive. The Clearing House shall direct how the settlement amount is to be accounted for between the Defaulter and itself.
- (c) Neither the Clearing House nor any relevant Board or Exchange shall have any liability whatsoever for anything done or omitted in the determination of a settlement amount under this Rule.

8. Upon the determination of the outstanding rights and liabilities of the Defaulter under or in respect of all Contracts to which it is party or upon which it is or may be liable (in accordance with Rule 6 and the Rates Service DMP Annex, the ForexClear DMP Annex, the RepoClear DMP Annex and the Client Clearing Annex (as applicable)), the

following process shall be completed by the Clearing House in order to determine any net amounts which remain payable between the Defaulter and the Clearing House in respect of each "**kind of account**" as described in Rule 11(b):

- (a) there shall be brought into account all sums payable:
 - (i) by or to a Defaulter in respect of Contracts (other than FCM Contracts and Contracts registered in the name of Sponsored Members); any other sum due under the Regulations or, where the Defaulter is a Co-operating Clearing House, under the agreement between such Co-operating Clearing House and the Clearing House in relation to co-clearing; any sum due in respect of any breach of the Regulations or, where the Defaulter is a Co-operating Clearing House, the agreement between such Co-operating Clearing House and the Clearing House in relation to co-clearing (except, if the Clearing House so determines at its discretion, any sum payable under a Contract as the price for the commodity which is the subject of such Contract delivered or to be delivered to the Clearing House by or on behalf of the Defaulter); and/or any amount due from the Defaulter to the Clearing House in respect of any Treasury Contract;
 - (ii) by or to a Defaulter in respect of FCM Contracts (and in accordance with paragraph (e) below); any other sum due under the FCM Regulations; and/or any sum due in respect of any breach of the FCM Regulations;
 - (iii) by or to a Defaulter that is a Sponsored Member in respect of Contracts registered in the name of such Sponsored Member (and in accordance with paragraph (i) below); any other sum due under the SC Regulations; and/or any sum due in respect of any breach of the SC Regulations;
- (b) the sums so payable shall be aggregated or set off so as to produce a net sum or as many net sums as required by Rule 11;
- (c) any cash Collateral forming part of the Clearing House Current Collateral Balance in respect of the relevant kind of account shall be set off against any cash Collateral (excluding cash Client Collateral) forming part of the Defaulter's Clearing Member Current Collateral Balance or SM/AM Current Collateral Balance (as applicable) in respect of the relevant kind of account, and the resulting amount shall be aggregated with or set off against (as the case may be) any net sum payable under Rule 8(b) above, so as to produce a further net sum;
- (d) where an amount is payable by the Clearing House to the Defaulter in respect of a balance on its Proprietary Account(s) (or, in respect of a Defaulter that is an FCM Clearing Member, on its Proprietary Account(s) and its FCM Affiliate Account(s) combined), and there are amounts due to the Clearing House in respect of any other relevant kind of account with the Clearing House, including any FCM Omnibus Client Account with LCH (and any FCM Client Sub-Accounts therein) operated by it, the balance on the Proprietary Account(s) (or, in respect of a Defaulter that is an FCM Clearing Member, on the Proprietary Account(s) and the FCM Affiliate Account(s) combined) may be applied to meet the shortfall on any such kind of account with the Clearing House,

including any FCM Omnibus Client Account with LCH (and any FCM Client Sub-Accounts therein) in any way in which the Clearing House may determine;

- (e) in the case where the Defaulter is an FCM Clearing Member,
 - (i) with respect to an FCM Omnibus Swaps Client Account with LCH, a net sum shall be calculated in respect of each applicable FCM Client Sub-Account, and with regards to any amount due to the Clearing House from the Defaulter in respect of net sums attributable to FCM Client Sub-Accounts where there is inadequate Collateral (on a sub-account by sub-account basis) to fully set off such amount payable, the Clearing House shall have sole discretion with respect to the allocation of any available FCM Buffer or the reallocation of any Encumbered FCM Buffer in setting off any such amounts payable to the Clearing House;
 - (ii) with respect to an FCM Omnibus Futures Client Account with LCH, a net sum shall be calculated in respect of the FCM Omnibus Futures Client Account with LCH;~~and~~
 - (iii) with respect to an FCM Omnibus Foreign Futures Client Account with LCH, a net sum shall be calculated in respect of the FCM Omnibus Foreign Futures Client Account with LCH;~~;~~ and
 - (iv) with respect to the Proprietary Account(s) and FCM Affiliate Account(s) of the FCM Clearing Member, a single net sum shall be calculated in respect of the Proprietary Account(s) and FCM Affiliate Account(s).
- (f) in the event that the Clearing House elects to close out and to liquidate FCM SwapClear Contracts (including, for the avoidance of doubt, any FCM Portfolio Margined Contracts) attributable to FCM Clients of the Defaulter (in accordance with the Rates Service DMP Annex), the Clearing House shall allocate any costs associated with such closing out and liquidation process (including hedging costs (including the gains and losses associated with hedging transactions) and liquidation/auction costs and losses) among the FCM Clients whose positions were liquidated, by allocation to such FCM Clients' FCM Client Sub-Accounts that are held in the Defaulter's FCM Omnibus SwapClear Client Account with LCH, in the manner set out in Section 2A.15.6 of the FCM Procedures and in accordance with Parts 22 and 190 of the CFTC Regulations and any other Law;
- (g) in the event that the Clearing House elects to close out and to liquidate FCM ForexClear Contracts attributable to FCM Clients of the Defaulter (in accordance with the ForexClear DMP Annex), the Clearing House shall allocate any costs associated with such closing out and liquidation process (including hedging costs (including the gains and losses associated with hedging transactions) and liquidation/auction costs and losses) among the FCM Clients whose positions were liquidated, by allocation to such FCM Clients' FCM Client Sub-Accounts that are held in the Defaulter's FCM Omnibus ForexClear Client Account with LCH, in the manner set out in Section 2B.23.6 of the FCM Procedures and in accordance with Parts 22 and 190 of the CFTC Regulations and any other Applicable Law; and

(h) [INTENTIONALLY LEFT BLANK]

- (i) in the case where the Defaulter is a Sponsored Member, with respect to a SM/AM Account of such Defaulter with LCH, a net sum shall be calculated in respect of each applicable SM/AM Account, and with regards to any amount due to the Clearing House from the Defaulter in respect of net sums attributable to a SM/AM Account where there is inadequate Collateral to fully set off such amount payable, the Clearing House shall have sole discretion with respect to the allocation of any available Agent Buffer standing to the relevant SM/AM Account in setting off any such amounts payable to the Clearing House.

For the purposes of Rule 8(a) above, the Clearing House may assess the sum payable by or to the Defaulter in respect of any breach of the Regulations, FCM Regulations, SC Regulations or, where the Defaulter is a Co-operating Clearing House, the agreement between such Co-operating Clearing House and the Clearing House in relation to co-clearing (as the case may be) in such reasonable manner as it thinks fit, **provided, that** in the case of breaches of the FCM Regulations, the assessment by the Clearing House shall not be in violation of the CFTC Regulations (including Part 22 thereof).

With respect to any Unallocated Excess maintained in the Unallocated Excess Sub-Account of the Defaulter, the Clearing House shall not be permitted to apply any such Unallocated Excess to the obligations of the Defaulter to the Clearing House (on behalf of the Defaulter's FCM Clients or otherwise) or take any such Unallocated Excess into account for purposes of determining net sums under this Rule 8, except to the extent required or permitted by Applicable Law or directed by the applicable bankruptcy trustee or Regulatory Body in accordance with Applicable Law.

9. The sum, or each sum, finally payable by the Defaulter to the Clearing House or by the Clearing House to the Defaulter (including any sums payable to the Defaulter for the benefit of one or more of its FCM Clients), or the fact that no sum is finally payable by either such party to the other, as the case may be upon completion of the process set out in Rule 8, shall be forthwith certified by the Clearing House for the purposes of section 163 of the Companies Act 1989. The certificate of the Clearing House under this Rule shall be conclusive as to the discharge of the Defaulter's rights and liabilities in respect of the Contracts to which it relates. The Clearing House shall, as soon as practicable after issuing a Default Notice in respect of a Clearing Member, appoint a day on which any net sums certified under this Rule to be due to the Defaulter are to be paid by the Clearing House. The day so appointed may fall before or after the effective date of termination of the Defaulter's Clearing Membership Agreement but shall not fall on a day before the process specified in Rule 8 can be completed.
10. Following a Default by an FCM Clearing Member, the Clearing House will to the extent permitted by Applicable Law (including Part 190 of the CFTC Regulations and

applicable bankruptcy law), credit Variation Settlement on a gross basis to each individual FCM Client Sub-Account.

11.

- (a) Where the Defaulter has more than one account with the Clearing House, the Defaulter's accounts shall be combined for the purpose of Rules 8 and 9 as follows:
- (i) no account which is an FCM Client Sub-Account of an FCM Client may be combined with any other account, including any FCM Client Sub-Account of another FCM Client, any FCM Omnibus Client Account with LCH-~~or~~, any Proprietary Account, or any FCM Affiliate Account; **provided that** in the event that an FCM Client were to have two FCM Client Sub-Accounts with the same Defaulter, and both such accounts cleared the same Product, then such FCM Client Sub-Accounts may be combined;
 - (ii) no account which is an FCM Omnibus Client Account with LCH of the Defaulter may be combined with any other account, including any other FCM Omnibus Client Account with LCH-~~or~~, any Proprietary Account, or any FCM Affiliate Account;
 - (iii) an account which is a Proprietary Account of the Defaulter (or, in respect of a Defaulter that is an FCM Clearing Member, an account which is a Proprietary Account or an FCM Affiliate Account of the Defaulter) may be combined with any other Proprietary Accounts of the Defaulter (or, in respect of a Defaulter that is an FCM Clearing Member, any other Proprietary Accounts or FCM Affiliate Account(s) of the Defaulter) and (if the Clearing House so elects) Treasury Accounts of the Defaulter (subject to Rule 11(d) of the Default Rules); and
 - (iv) an account which is a Treasury Account of the Defaulter may only be combined with other Treasury Accounts and (if the Clearing House so elects) Proprietary Accounts of the Defaulter; and
 - (v) no account which is an SM/AM Account of a Sponsored Member may be combined with any other account.

Notwithstanding the foregoing, in no circumstances may an account which is an Individual Segregated Account of the Defaulter, an Indirect Gross Account of the Defaulter, a Custodial Segregated Account of the Defaulter or an Omnibus Segregated Account of the Defaulter be combined with any other account of the Defaulter (except as provided under Rule 15(a)(ii)).

- (b) For the purposes of this Rule 11, each Individual Segregated Account of the Defaulter, each Custodial Segregated Account of the Defaulter, each Omnibus Segregated Account of the Defaulter, each Indirect Gross Sub-Account within a particular Indirect Gross Account of the Defaulter, each FCM Client Sub-Account(s) of a particular FCM Client within a particular FCM Omnibus Swaps Client Account with LCH of the Defaulter, each FCM Omnibus Foreign Futures Client Account with LCH, each SM/AM Account with LCH shall constitute a

separate "**kind of account**". Where the Defaulter has more than one kind of account with the Clearing House, the process set out in Rule 8 shall be separately completed in respect of each kind of account and the sum finally payable in respect of each kind of account following completion of the process set out in Rule 8 shall be separately certified under Rule 9.

- (c) In Rule 8 any reference to the relevant "**kind of account**" means:
- (i) with regard to a net sum produced by reference to Contracts registered in an Individual Segregated Account of the Defaulter, that Individual Segregated Account;
 - (ii) with regard to a net sum produced by reference to Contracts registered in an Indirect Gross Sub-Account of the Defaulter, that Indirect Gross Sub-Account;
 - (iii) with regard to a net sum produced by reference to Contracts registered in a Custodial Segregated Account of the Defaulter, that Custodial Segregated Account;
 - (iv) with regard to a net sum produced by reference to Contracts registered in an Omnibus Segregated Account of the Defaulter, that Omnibus Segregated Account;
 - (v) with regard to a net sum produced by reference to FCM SwapClear Contracts and/or FCM Portfolio Margined Contracts registered in one or more FCM Client Sub-Accounts of the Defaulter held in the name of one particular FCM Client, that FCM Client Sub-Account, or (if there is more than one) all such FCM Client Sub-Accounts (containing FCM SwapClear Contracts and/or FCM Portfolio Margined Contracts) of such particular FCM Client combined;
 - (vi) with regard to a net sum produced by reference to FCM ForexClear Contracts registered in one or more FCM Client Sub-Accounts of the Defaulter held in the name of one particular FCM Client, that FCM Client Sub-Account, or (if there is more than one) all such FCM Client Sub-Accounts (containing FCM ForexClear Contracts) of such particular FCM Client combined;
 - (vii) [INTENTIONALLY LEFT BLANK];
 - (viii) with regard to a net sum produced by reference to FCM Contracts registered in an FCM Omnibus Futures Client Account with LCH of the Defaulter, that FCM Omnibus Futures Client Account with LCH, or (if there is more than one) all such FCM Omnibus Futures Client Accounts with LCH of the Defaulter combined;
 - (ix) with regard to a net sum produced by reference to FCM Contracts registered in an FCM Omnibus Foreign Futures Client Account with LCH of the Defaulter, that FCM Omnibus Foreign Futures Client

Account with LCH, or (if there is more than one) all such FCM Omnibus Foreign Futures Client Accounts with LCH of the Defaulter combined;

- (x) with regard to a net sum produced by reference to Contracts registered in one or more Proprietary Accounts of the Defaulter (or, in respect of a Defaulter that is an FCM Clearing Member, in one or more Proprietary Account(s) and FCM Affiliate Account(s) of the Defaulter), that Proprietary Account or those Proprietary Accounts combined (or, in respect of a Defaulter that is an FCM Clearing Member, those Proprietary Account(s) and FCM Affiliate Account(s) combined) and (if the Clearing House has elected in accordance with Rule 11(a)) any Treasury Accounts of the Defaulter;
 - (xi) with regard to a net sum produced by reference to one or more Treasury Accounts of the Defaulter, that Treasury Account or those Treasury Accounts combined, and (if the Clearing House has elected in accordance with Rule 11(a)) any Proprietary Accounts; and
 - (xii) with regard to a net sum produced by reference to Contracts registered in SM/AM Account with LCH of the Defaulter, that SM/AM Account.
- (d) Notwithstanding any provision of the Rulebook to the contrary, any loss which relates to a Treasury Account may not be treated as a Default Loss, whether or not Collateral has been applied in respect of such loss. Nothing in this Rule 11(d) requires the Clearing House to apply Collateral in respect of any such loss, except that the Clearing House may not apply Collateral in respect of any such loss to the extent that doing so would give rise to an Excess Loss.
12. Without further authorisation, permission or cooperation from the Defaulter (or a related Agent Member), the Clearing House may appoint any person to take or assist it in taking any step under these Rules or to complete or assist it in completing the process set out in Rule 8.
13. The Clearing House may co-operate, by the sharing of information and otherwise, with any Regulatory Body or relevant Exchange, any relevant office-holder acting in relation to the Defaulter or its estate and any other authority or body having responsibility for, or any Clearing Member having an interest in, any matter arising out of or connected with the circumstances mentioned in Rule 3.
14. In addition to such copy report as it supplies under section 162(3) of the Companies Act 1989, the Clearing House shall report to the Defaulter (and, if applicable, its related Agent Members), or any relevant office-holder acting in relation to the Defaulter or its estate, on steps taken in relation to the Defaulter under Rule 6.

Reduction of Losses on Default

15. Subject to: (i) any contrary provision of the Rulebook and/or (ii) any variation or modification in, or clarification of, the application of the resources described below set out in an Annex, where a Defaulter fails to pay any sum payable to the Clearing House, the Clearing House shall reduce or bear its loss in the manner provided by this Rule:

SCHEDULE 2 RATES SERVICE DMP ANNEX

1. Scope and Interpretation
 - 1.1 The SwapClear Service and Listed Interest Rates Service share a common default fund. Accordingly, the risk profile of participating in either one of such Services may be impacted by other Clearing Members participating in the other such Service whether or not as a Portfolio Margining Clearing Member.
 - 1.2 The Clearing House has established a Rates Service DMP which will apply to Rates Service Contracts following the Default of a Rates Service Clearing Member and in respect of which, for the avoidance of doubt, the Clearing House will have no recourse to the process of invoicing-back in respect of SwapClear Contracts. The fundamental principles of the Rates Service DMP are elaborated to the fullest extent possible in this Annex. Where exhaustive detail cannot be laid out in the provisions of this Annex, the Rates Service DMP will be undertaken on the basis of the principles contained herein.
 - 1.3 Whilst this Annex sets out the default management process in respect of all Rates Service Contracts, it provides for the various types of such Contracts to be treated differently (depending on whether such Contracts are SwapClear Contracts, Portfolio Margined Contracts or Listed Interest Rates Contracts that are not Portfolio Margined Contracts). Given the scope of the Contracts it covers, the Annex sets out a default management process that applies to defaulting Clearing Members and non-defaulting Clearing Members who are SCMs (whether or not such SCMs are also Listed Interest Rates Clearing Members or Portfolio Margining Clearing Members) and to Listed Interest Rates Clearing Members (whether or not they are also SCMs or Portfolio Margining Clearing Members) and, for the purposes of this Annex, unless the context specifically requires otherwise, the terms "SCM" "Defaulting SCM" and "Non-Defaulting SCM" should all be construed to include SCMs who are Joint Rates Service Clearing Members.
 - 1.4 The Clearing House has an obligation to ensure the on-going integrity of the SwapClear Service, the Listed Interest Rates Service, the SwapClear Contracts and the Listed Interest Rates Contracts in the interests of the Non-Defaulting Rates Service Clearing Members. When an SCM defaults, SCMs are required to supply impartial expertise through the Rates Service DMG and to bid for the Auction Portfolios of the Defaulting SCM, as laid out in this Annex. In addition, Rates Service Clearing Members and/or their parent companies and/or subsidiaries and/or fellow subsidiaries, have direct interests in the ongoing integrity of the SwapClear Service and Listed Interest Rates Service, notably as contributors to the various default funds of the Clearing House. Each Rates Service Clearing Member shall take all steps and execute all documents necessary or required by the Clearing House to comply with its obligations as a Rates Service Clearing Member arising out of this Annex.
 - 1.5 The initial margining process in respect of SwapClear Contracts will be such so as to ensure that the acceptance of bids for the Auction Portfolios of a Defaulting SCM will recognise risk premiums and that equivalent premiums will be paid by the Clearing House in closing-out other Contracts under the Exchange Rules of the relevant Exchange.

1.6 In this Annex:

"**Accepted**" means, in respect of a bid in an Auction, that the Clearing House has accepted such bid as one that it may select as the winning bid for such Auction and "**Accept**" and "**Accepts**" shall have a corresponding meaning;

"**AIP**" has the meaning given in Rule 2.6 of this Annex;

"**AIP Amount**" means:

- (a) in respect of a Non-Defaulting SCM and the OTC Auction Portfolio(s) in a specific Auction Portfolio Currency and Auction Portfolio Category, the product of
 - (i) such Non-Defaulting SCM's AIP Ratio applicable to the Auction Portfolio Currency and Auction Portfolio Category of such OTC Auction Portfolio(s), and
 - (ii) the total of its (A) remaining SwapClear Funded Contribution, and (B) remaining SwapClear Unfunded Contribution;
- (b) in respect of a Non-Defaulting Joint Rates Service Clearing Member and a Basis Portfolio, the product of
 - (i) such Non-Defaulting Joint Rates Service Clearing Member's AIP Ratio applicable to the Basis Portfolio, and
 - (ii) the total of its (A) remaining SwapClear Funded Contribution, and (B) remaining SwapClear Unfunded Contribution;

"**AIP Ratio**" means:

- (a) in respect of a Non-Defaulting SCM and the OTC Auction Portfolio(s) in a specific Auction Portfolio Currency and Auction Portfolio Category, the ratio that
 - (i) the Undiversified Expected Shortfall for the SwapClear Contracts [and Portfolio Margined Contracts](#) of such Non-Defaulting SCM that are registered in its name at the time of the relevant Default and are in such Auction Portfolio Currency and Auction Portfolio Category bears to,
 - (ii) the aggregate Undiversified Expected Shortfall for all the SwapClear Contracts [and Portfolio Margined Contracts](#) that are registered in the name of such Non-Defaulting SCM at the time of the relevant Default;
- (b) in respect of a Non-Defaulting Joint Rates Service Clearing Member and a Basis Portfolio in an Auction Portfolio Currency, the ratio calculated in paragraph (a) above applicable to such Non-Defaulting Joint Rates Service Clearing Member, in respect of the OTC Auction Portfolio(s) which are denominated in such Auction Portfolio Currency and belong to the IRS SwapClear Contract Category;

"Auction" means the process of bidding by Non-Defaulting SCMs for an OTC Auction Portfolio or by Non-Defaulting Joint Rates Service Clearing Members for a Basis Portfolio as prescribed by the Clearing House following consultation with the Rates Service DMG from time to time in accordance with Rule 2.4 of this Annex;

"Auction Losses" means, in respect of an OTC Auction Portfolio or a Basis Portfolio, all losses arising from:

- (a) the auction and sale of such OTC Auction Portfolio or Basis Portfolio (as applicable); and
- (b) a change in the net present value of the Rates Service Contracts within such OTC Auction Portfolio or Basis Portfolio (as applicable) during the Auction Losses Calculation Period applicable to such portfolio;

"Auction Losses Calculation Period" means, in respect of an OTC Auction Portfolio or a Basis Portfolio (as applicable) and the business day on which the Clearing House auctions and sells such portfolio, the period:

- (a) commencing immediately after the Daily Calculation Period for the previous business day; and
- (b) ending at the point at which the Clearing House sells such portfolio;

"Auction Portfolio Category" means, in relation to an OTC Auction Portfolio, the SwapClear Contract Category to which the SwapClear Contracts in the OTC Auction Portfolio belong, provided that in the case of an OTC Auction Portfolio containing both IRS SwapClear Contracts and Inflation SwapClear Contracts, the relevant Auction Portfolio Category shall be deemed to be the Inflation SwapClear Contract Category;

"Auction Portfolio Currency" means, in relation to an OTC Auction Portfolio, the currency in which the Contracts in the OTC Auction Portfolio are denominated and in relation to a Basis Portfolio, the currency in which the Contracts in the Basis Portfolio are denominated;

"Bankruptcy Code" means the U.S. Bankruptcy Code, as amended;

"Basis Portfolio" means a Portfolio containing SwapClear Contracts, Portfolio Margined Contracts and/or Listed Interest Rates Contracts as more fully defined in Rule 2.3 of this Annex and which is not, for the avoidance of doubt, an OTC Auction Portfolio;

"CEA" means the U.S. Commodity Exchange Act, as amended;

"CFTC" means the U.S. Commodity Futures Trading Commission;

"Daily Calculation Period" means, in respect of a business day, the period, in respect of which the Clearing House determines the end of day margin and settlement payments for Rates Service Contracts and such business day.

"Defaulting Joint Rates Service Clearing Member" means a Joint Rates Service Clearing Member who is a Defaulter;

"Derivatives Clearing Organization" means an organisation designated and registered as such by way of United States Code Title 7, Chapter 1, paragraph 7a-1;

"Difference" means, in respect of an Auction and a Remaining Short Bidder who bid in the Auction, the difference between (a) the winning bid for such Auction, and (b) the bid of such Remaining Short Bidder in the Auction;

"Equal Bid" means an Accepted bid in an Auction, which is equal to another Accepted bid in the same Auction;

"Exchange Closed-out Contracts" means those Listed Interest Rates Contracts ([other than Portfolio Margined Contracts](#)) of a Defaulting Listed Interest Rates Clearing Member that are closed-out under the Exchange Rules of the Exchange to which they relate;

"Exchange Losses" means the losses in respect of the Exchange Closed-out Contracts of a Defaulting Listed Interest Rates Clearing Member;

"Expected Auction Participant" means, in respect of an OTC Auction Portfolio, any Non-Defaulting SCM who, at the time of the relevant Default, has at least one Resembling Contract registered in its name and, in respect of a Basis Portfolio, each Non-Defaulting Joint Rates Service Clearing Member;

"FCM Rates Service Client Business" means the provision of FCM SwapClear Clearing Services and/or FCM Listed Interest Rates Clearing Services by an FCM Clearing Member to its FCM Clients;

"FCM Rates Service House Business" means the FCM SwapClear Contracts and/or FCM Listed Interest Rates Contracts entered into by an FCM Clearing Member for its Proprietary Account [and its FCM Affiliate Account\(s\)](#);

"FCM SwapClear Client Business" means the provision of FCM SwapClear Clearing Services by an FCM Clearing Member to its FCM Clients;

"FCM SwapClear House Business" means the FCM SwapClear Contracts entered into by an FCM Clearing Member for its Proprietary Account;

"Guidance" means guidance, in the form of one or more written notices, issued from time to time by or on behalf of the Clearing House to SwapClear Clearing Members, supplementing the detail or conduct of any aspect of the Rates Service DMP;

"Hedging Give Up Agent" has the meaning given in Rule 2.2(c)(i) of this Annex;

"Hedging Listed Interest Rates Contract" means a Listed Interest Rates Contract as described in Rule 2.2(c)(ii)(A) or Rule 2.2(d) of this Annex;

"Hedging Rates Service Clearing Member" has the meaning given in Rule 2.2(b)(i) of this Annex;

"Hedging Rates Service Contract" means a Hedging SwapClear Contract or a Hedging Listed Interest Rates Contract;

"Hedging SwapClear Contract" has the meaning given in Rule 2.2(b)(ii)(B) of this Annex;

"Inflation SwapClear Contract Category" means the category of SwapClear Contracts which comprises Inflation SwapClear Contracts registered with the Clearing House;

"IRS SwapClear Contract Category" means the category of SwapClear Contracts which comprises IRS SwapClear Contracts registered with the Clearing House;

"Listed Interest Rates Only Clearing Member" means a Listed Interest Rates Clearing Member that is not an SCM;

"Listed Interest Funded Contribution" means the Listed Interest Rates Contribution of a Listed Interest Rates Clearing Member, excluding any Listed Interest Rates Unfunded Contribution in respect of the Listed Interest Rates Clearing Member;

"Listed Interest Rates Unfunded Contribution" has the meaning assigned to "Unfunded Contribution" in Rule L5(a) of the Rates Service Default Fund Supplement;

"Loss Portion" means, in respect of an Auction of:

- (a) an OTC Auction Portfolio, a Remaining Short Bidder who bid in such Auction, and
 - (i) Rule 2.7(b)(ii) of this Annex, the amount equal to the product of
 - (A) the outstanding Auction Losses to be attributed to Remaining Short Bidders under Rule 2.7(b)(ii) of this Annex, and
 - (B) the proportion that the Difference in respect of such Remaining Short Bidder and Auction bears to the total Differences in respect of all Remaining Short Bidders who bid in such Auction, and
 - (ii) Rule 2.7(f)(ii) of this Annex, the amount equal to the product of
 - (A) the outstanding Auction Losses to be attributed to Remaining Short Bidders under Rule 2.7(f)(ii) of this Annex, and
 - (B) the proportion that the Difference in respect of such Remaining Short Bidder and Auction bears to the total Differences in respect of all Remaining Short Bidders who bid in such Auction; and
- (b) a Basis Portfolio, a Remaining Short Bidder who bid in such Auction, and
 - (i) Rule 2.8(b)(ii) of this Annex, the amount equal to the product of
 - (A) the outstanding Auction Losses to be attributed to Remaining Short Bidders under Rule 2.8(b)(ii) of this Annex, and

- (B) the proportion that the Difference in respect of such Remaining Short Bidder and Auction bears to the total Differences in respect of all Remaining Short Bidders who bid in such Auction, and
- (ii) Rule 2.8(f)(ii) of this Annex, the amount equal to the product of
 - (A) the outstanding Auction Losses to be attributed to Remaining Short Bidders under Rule 2.8(f)(ii) of this Annex, and
 - (B) the proportion that the Difference in respect of such Remaining Short Bidder and Auction bears to the total Differences in respect of all Remaining Short Bidders who bid in such Auction;

"Market Losses" mean any losses in respect of the implementation of the Rates Service DMP, including losses arising from the execution of hedging transactions and/or matches for the purpose of Risk Neutralisation, but excluding:

- (a) Auction Losses; and
- (b) Exchange Losses;

"Non-Bidder" means, in respect of an Auction, an SCM, which (a) did not bid in such Auction, or (b) bid in such Auction, but whose bid was not Accepted;

"Non-Defaulter" means, as the context requires, an SCM, Listed Interest Rates Clearing Member and/or a Joint Rates Service Clearing Member, in each case, that is not a Defaulter;

"Non-Defaulters' Listed Interest Rates Contributions" means the Listed Interest Rates Contributions made by Non-Defaulting Listed Interest Rates Clearing Members;

"Non-Defaulters' SwapClear Contributions" means the SwapClear Contributions made by Non-Defaulting SCMs;

"OTC Auction Portfolio" means (a) a Portfolio containing only SwapClear Contracts, or (b) a group of SwapClear Contracts resulting from the splitting of a Portfolio pursuant to Rule 2.1 of this Annex, including in both such cases any connected Hedging SwapClear Contracts (but not any Hedging Listed Interest Rates Contracts) concluded by the Clearing House through Risk Neutralisation;

"Out Bid" means a bid in an Auction, which is Accepted and higher than the winning bid in such Auction;

"Out Bidder" means, in respect of an Auction, a Non-Defaulting SCM, which submitted an Out Bid in such Auction;

"Portfolio" means, in respect of each SwapClear currency, the SwapClear Contracts in such currency registered in the name of a Defaulting SCM in respect of House Clearing Business or the SwapClear Contracts in such currency registered in the name of a Defaulting SCM in respect of Client Clearing Business (or, in the case of an FCM

Clearing Member that is a Defaulter, the FCM SwapClear Contracts in such currency registered in respect of its FCM SwapClear Client Business) and in both such cases includes, where relevant, any (i) Portfolio Margined Contracts, and (ii) Hedging SwapClear Contracts and/or Hedging Listed Interest Rates Contracts connected to the relevant SwapClear Contracts or Portfolio Margined Contracts (as the case may be) concluded by the Clearing House through Risk Neutralisation. For the avoidance of doubt, a Portfolio containing Contracts relating to the Client Clearing Business or FCM SwapClear Client Business of a Defaulting SCM will only contain Contracts relating to Client Clearing Business or FCM SwapClear Client Business, as appropriate. The Clearing House shall not be entitled to combine client and house positions in a single Portfolio;

"Portfolio Listed Interest Rates Contracts" means those Listed Interest Rates Contracts of a Defaulting Joint Rates Service Clearing Member that are included in a Portfolio, whether such Listed Interest Rates Contracts are Portfolio Margined Contracts or Hedging Listed Interest Rates Contracts concluded by the Clearing House through Risk Neutralisation;

"Rates Service Default Management Process Completion Date" means the date when the Rates Service Default Management Process in relation to a Default has been completed as determined by the Clearing House in consultation with the Rates Service DMG and notified to all Rates Service Clearing Members;

"Rates Service DMG" means the advisory default management group established by the Clearing House pursuant to the terms of this Annex;

"Rates Service DMP" means the processes of the Clearing House outlined in this Annex, as the same may be supplemented and/or amended from time to time in accordance with this Annex;

"Rates Service Funded Contribution" means the SwapClear Funded Contribution and Listed Interest Rates Funded Contribution of an SCM;

"Rates Service Unfunded Contributions" means the SwapClear Unfunded Contributions and Listed Interest Rates Unfunded Contributions of an SCM;

"Recognised Clearing House" mean an organisation which is declared to be a recognised clearing house by a recognition order (that is for the time being in force) made under section 290(1)(b) of the Financial Services and Markets Act 2000;

"Remaining Short Bidder" means, in respect of an Auction of:

- (a) an OTC Auction Portfolio and
 - (i) Rule 2.7(b)(ii) of this Annex, a Short Bidder in such Auction whose remaining AIP Amount, which is in the form of SwapClear Funded Contributions and forms part of the AIP relating to such OTC Auction Portfolio, is greater than zero, and
 - (ii) Rule 2.7(f)(ii) of this Annex, a Short Bidder in such Auction whose remaining AIP Amount, which is in the form of SwapClear Unfunded

Contributions and forms part of the AIP relating to such OTC Auction Portfolio, is greater than zero; and

- (b) a Basis Portfolio and
 - (i) Rule 2.8(b)(ii) of this Annex, a Short Bidder in such Auction whose remaining AIP Amount, which is in the form of SwapClear Funded Contributions and forms part of the AIP relating to such Basis Portfolio, is greater than zero, and
 - (ii) Rule 2.8(f)(ii) of this Annex, a Short Bidder in such Auction whose remaining AIP Amount, which is in the form of SwapClear Unfunded Contributions and forms part of the AIP relating to such Basis Portfolio, is greater than zero;

"Resembling Contract" means, in respect of the SwapClear Contracts in an OTC Auction Portfolio, a SwapClear Contract registered in the name of a Non-Defaulting SCM that (a) is denominated in the same Auction Portfolio Currency as such SwapClear Contracts, and (b) belongs to the SwapClear Contract Category which corresponds to the Auction Portfolio Category of such OTC Auction Portfolio;

"Risk Neutralisation" means the process of reducing the market risk associated with a Defaulting SCM's obligations to the Clearing House under SwapClear Contracts and/or Portfolio Margined Contracts by hedging the exposure before the auction process as described in Rule 2.2 of this Annex;

"Short Bidder" means, in respect of an Auction of:

- (a) an OTC Auction Portfolio, a Non-Defaulting SCM that (a) is an Expected Auction Participant for such OTC Auction Portfolio, and (b) submitted a bid, which is Accepted, but lower than the winning bid, in such Auction; and
- (b) a Basis Portfolio, a Non-Defaulting Joint Rates Service Clearing Member that submitted a bid, which is Accepted, but lower than the winning bid, in such Auction;

"SwapClear Contract Category" means a category of SwapClear Contracts, being either the Inflation SwapClear Contract Category or the IRS SwapClear Contract Category;

"SwapClear Funded Contribution" means the SwapClear Contribution of an SCM, excluding any SwapClear Unfunded Contribution in respect of the SCM;

"SwapClear-Only Clearing Member" means an SCM that is not a Listed Interest Rates Clearing Member; and

"Undiversified Expected Shortfall" means, in respect of the SwapClear Contracts [and Portfolio Margined Contracts](#) in a specific currency and SwapClear Contract Category, the largest loss which the Clearing House determines could be incurred it in respect of such SwapClear Contracts, using [\(where applicable\)](#) the SwapClear PAIRS margining

algorithm based on 2,500 historical scenarios (10 years history) and a holding period of 5 days.

Terms used, and not defined, in this Annex shall have the meanings given to them in the Regulations or FCM Regulations.

2. Rates Service DMP

The Rates Service DMP in respect of: (a) **Rates Service Clearing House Business**; (b) **Relevant Auction Contracts in respect of Rates Service Client Clearing Business**; (c) **FCM Rates Service House Business**; and (d) FCM Rates Service Client Business shall involve the processes described in this Rule 2.

Resources will be allocated based on the order and proportions described in Rules 2.5 to 2.9 of this Annex. Allocation of resources pursuant to a process or the order in which processes are carried out may reduce the resources which are available to meet the losses in respect of any subsequent process and, consequently, impact the allocation of losses amongst non-defaulting Clearing Members. For the avoidance of doubt, the Clearing House may in its sole and absolute discretion determine the order in which it: (a) constructs OTC Auction Portfolios and Basis Portfolios; (b) auctions OTC Auction Portfolios and Basis Portfolios; and (c) closes out any Listed Interest Rates Contract [and/or Portfolio Margined Contract](#) of a Defaulter under the Exchange Rules of any relevant Exchange.

2.1 *Portfolio Splitting*

The Clearing House, in consultation with and with the assistance of the Rates Service DMG, shall determine the composition of each OTC Auction Portfolio and Basis Portfolio and shall have the discretion to create two or more OTC Auction Portfolios and/or two or more Basis Portfolios from a Portfolio, whether by dividing such Portfolio or separating certain Contracts from such Portfolio [and/or to liquidate the Portfolio Margined Contracts in a Portfolio under the Exchange Rules of the Exchange to which they relate](#), with the aim of facilitating the efficiency of, and reducing the risk associated with, the auction process provided for in Rule 2.4 of this Annex. The overriding principle behind the portfolio splitting process is that the Clearing House will structure OTC Auction Portfolios and Basis Portfolios with the intention of ensuring a Rates Service DMP which best protects the resources of the Clearing House, subject to compliance with applicable provisions of the CEA and the CFTC Regulations regarding segregation of client assets (including, where relevant, compliance with the terms of any CFTC order permitting the commingling of client assets). Therefore, nothing in this Rule 2.1 shall be deemed to imply: (a) that the Clearing House is under any obligation [either](#) to split a particular Portfolio of a Defaulting SCM (regardless of the number of Contracts that such Portfolio contains) [or to liquidate the Portfolio Margined Contracts in a Portfolio under the Exchange Rules of the Exchange to which they relate](#); or (b) any particular requirements as to the composition of an individual OTC Auction Portfolio, including in terms of: (i) combining or separating SwapClear Contracts belonging to different SwapClear Contract Categories; (ii) combining or separating Inflation SwapClear Contracts having different underlying indices; and/or (iii) creating one or more OTC Auction Portfolios from a Portfolio, except that, subject to overriding risk procedures, it is broadly anticipated that: (a) the parameters of any OTC Auction Portfolio and Basis Portfolio shall not be materially different to those set

out in the Clearing House's fire drill; and (b) an OTC Auction Portfolio containing Inflation SwapClear Contracts will often also contain SwapClear Contracts which are not Inflation SwapClear Contracts for the purposes of interest rate Risk Neutralisation only.

2.2 *Risk Neutralisation*

The Clearing House will, in consultation with, and with the assistance of, the Rates Service DMG, reduce the market risk associated with a Defaulting Rates Service Clearing Member's obligations to the Clearing House so far as is reasonably practicable by hedging the Clearing House's exposure in open Rates Service Contracts to which the Defaulting SCM is party, where such hedging may be achieved, without limitation, by:

- (a) the splitting of Portfolios pursuant to Rule 2.1 above;
- (b) the Clearing House, for the purpose of hedging:
 - (i) executing one or more new SwapClear Transactions and/or new FCM SwapClear Transactions (as applicable) with Non-Defaulting Rates Service Clearing Members (each, a "**Hedging Rates Service Clearing Member**") on the basis of a separate agreement between the Clearing House and the Hedging Rates Service Clearing Member; and
 - (ii) clearing each such SwapClear Transaction and/or FCM SwapClear Transaction (as applicable) in accordance with, and subject to, the Rulebook and/or the FCM Rulebook (as applicable), such that:
 - (A) the Hedging Rates Service Clearing Member's side of such transaction is registered as a SwapClear Contract between the Clearing House and the Hedging Rates Service Clearing Member; and
 - (B) the Clearing House's side of such transaction is registered as a SwapClear Contract between the Defaulting Rates Service Clearing Member and the Clearing House (pursuant to the Clearing House's rights under Default Rule 6(a)) (any such SwapClear Contract, a "**Hedging SwapClear Contract**");
- (c) the Clearing House, for the purpose of hedging:
 - (i) engaging one or more third parties (each, a "**Hedging Give Up Agent**") to execute one or more new Listed Interest Rates Novation Transactions, FCM Listed Interest Rates Novation Transactions and/or Rates Exchange Matches (as applicable), as instructed by the Clearing House; and
 - (ii) clearing each such Listed Interest Rates Novation Transaction, FCM Listed Interest Rates Novation Transactions and/or Rates Exchange Matches (as applicable) in accordance with, and subject to, the Rulebook and/or FCM Rulebook (as applicable), such that:

- (A) the Hedging Give Up Agent's side of such transaction or match is registered as a Listed Interest Rates Contract and transferred to the Defaulting Rates Service Clearing Member, to become a Hedging Listed Interest Rates Contract between the Defaulting Rates Service Clearing Member and the Clearing House (pursuant to the Clearing House's right under Default Rule 6(q); and
- (B) the other side of such transaction or match is registered as a Listed Interest Rates Contract between the Clearing House and the relevant Listed Interest Rates Clearing Member; and/or
- (d) the Clearing House, for the purpose of hedging, designating an existing Listed Interest Rates Contract of the Defaulting Rates Service Clearing Member as a Hedging Listed Interest Rates Contract (pursuant to the Clearing House's right under Default Rule 6(q)).

The Clearing House may transfer one or more Hedging Rates Service Contracts from one account to any other account in accordance with Default Rule 6(g) (including any Hedged Account (in the circumstances provided for in the Rulebook)).

The Clearing House may undertake Risk Neutralisation before, as part of, concurrently with and/or subsequent to the splitting of a Portfolio pursuant to Rule 2.1. Where a Hedging Rates Service Clearing Member executes a hedging SwapClear Transaction or FCM SwapClear Transaction (as applicable) with the Clearing House, it agrees to present such SwapClear Transaction or FCM SwapClear Transaction for clearing with the Clearing House in accordance with, and subject to, the Rulebook or FCM Rulebook (as applicable) and within the required timeframe under all Applicable Law (and, in any event, no later than the time, as determined by the Clearing House, on the day on which it executes such SwapClear Transaction or FCM SwapClear Transaction).

2.3 ***Basis Portfolio Composition***

The Clearing House may, in consultation with, and with the assistance of, the Rates Service DMG and for each relevant currency construct a Basis Portfolio, which may include Hedging Rates Service Contracts concluded by the Clearing House through Risk Neutralisation

2.4 ***Auction***

- (a) Following the completion of Risk Neutralisation, the Clearing House shall auction each OTC Auction Portfolio to Non-Defaulting SCMs and each Basis Portfolio to Non-Defaulting Joint Rates Service Clearing Members, in both such cases in order to:
 - (i) seek to re-establish with those Non-Defaulting SCMs and Non-Defaulting Joint Rates Service Clearing Members (as applicable) the positions the Clearing House had with the Defaulting SCM under the relevant Rates Service Contracts; and

- (ii) seek to determine the net value of those Rates Service Contracts for the purposes of determining the extent of any losses to the Clearing House which are to be reduced or borne in the manner provided by Rule 15 of the Default Rules or, as the case may be, the extent of any gains to the Clearing House.

The Clearing House, in consultation with the Rates Service DMG, shall prescribe such procedures (in addition to those set out in this Annex) for the conduct of the auction process as it considers reasonably appropriate from time to time.

- (b) The Clearing House shall notify each Non-Defaulting SCM of all details that may be reasonably required in relation to an OTC Auction Portfolio and each Non-Defaulting Joint Rates Service Clearing Member of all details that may be reasonably required in relation to a Basis Portfolio, before the relevant Auction.
- (c) The auction process may take place over a number of days and Auctions of different OTC Auction Portfolios and different Basis Portfolios may take place at different times.
- (d) The relevant Non-Defaulting SCMs (in respect of each OTC Auction Portfolio) and Non-Defaulting Joint Rates Service Clearing Members (in respect of each Basis Portfolio) will submit bids to the Clearing House representatives on the Rates Service DMG, who will ensure that the identities of the bidders are not revealed to the Rates Service Clearing Member representatives on the Rates Service DMG. For the avoidance of doubt, a Non-Defaulting Rates Service Clearing Member is entitled to submit a bid in respect of an Auction on behalf of one or more affiliated Non-Defaulting Rates Service Clearing Members. The Rates Service DMG will oversee the bidding process in a manner which it considers best protects the resources of the Clearing House and ensures an orderly process.
- (e) The Clearing House, in consultation with the Rates Service DMG, will have full discretion in deciding whether to Accept a particular bid in an Auction and in deciding which Accepted bid it will select as the winning bid.
- (f) In the case of an Auction in which no bid is Accepted or received, one or more further Auctions will be held in relation to the relevant OTC Auction Portfolio or Basis Portfolio (as applicable).
- (g) As soon as practicable following the submission of bids in an Auction, if:
 - (i) one or more bid(s) is Accepted, the Clearing House will notify:
 - (A) in the case of an Auction of an OTC Auction Portfolio, the Expected Auction Participants together with any other Non-Defaulting SCMs which participated in the Auction that one or more bid(s) is Accepted;

- (B) in the case of an Auction of a Basis Portfolio, the Non-Defaulting Joint Rates Service Clearing Members which participated in the Auction that one or more bid(s) is Accepted;
 - (C) in both such cases, the SCM which submitted the winning bid that it is the winner of the Auction; and
- (ii) no bid is Accepted, the Clearing House will notify all Non-Defaulting SCMs of the details of any further Auction (in respect of an OTC Auction Portfolio) and all Non-Defaulting Joint Rates Service Clearing Members of the details of any further Auction (in respect of a Basis Portfolio).
- (h) Each Non-Defaulting SCM agrees to use all reasonable efforts to make a bid in an Auction for an OTC Auction Portfolio in respect of which it is an Expected Auction Participant and each Non-Defaulting Joint Rates Service Clearing Member agrees to use all reasonable efforts to make a bid in an Auction for a Basis Portfolio.

2.5 *Market Losses*

- (a) Market Losses will be met using the available resources as set out in Rule 15 of the Default Rules. Where the Clearing House determines that there are insufficient resources under Rules 15(a) to 15(d) of the Default Rules (inclusive) to meet such losses, they will be attributed to Non-Defaulters' remaining SwapClear Contributions and remaining Listed Interest Rates Contributions in the following order and proportions:
- (i) Market Losses will be attributed to the remaining SwapClear Funded Contribution of each Non-Defaulter *pro rata* according to the proportion that the remaining SwapClear Funded Contribution of such Non-Defaulter bears to the total of all such remaining SwapClear Funded Contributions.
 - (ii) If and to the extent there are Market Losses outstanding after the attribution process in Rule 2.5(a)(i) of this Annex, those Market Losses will be attributed to the remaining Listed Interest Rates Funded Contribution of each Non-Defaulting Joint Rates Service Clearing Member [\(other than, for the avoidance of doubt, a Non-Defaulting Joint Rates Service Clearing Member that is a PM Eligible SCM\)](#) *pro rata* according to the proportion that the remaining Listed Interest Rates Funded Contribution of such Non-Defaulting Joint Rates Service Clearing Member bears to the total of the remaining Listed Interest Rates Funded Contributions of all Non-Defaulting Joint Rates Service Clearing Members.
 - (iii) If and to the extent there are Market Losses outstanding after the attribution process in Rule 2.5(a)(ii) of this Annex, those Market Losses will be attributed to the remaining Listed Interest Rates Funded Contribution of each Non-Defaulting Listed Interest Rates-Only Clearing Member *pro rata* according to the proportion that the

remaining Listed Interest Rates Funded Contribution of such Non-Defaulting Listed Interest Rates-Only Clearing Member bears to the total of the remaining Listed Interest Rates Funded Contributions of all Non-Defaulting Listed Interest Rates-Only Clearing Members.

- (iv) If and to the extent there are Market Losses outstanding after the attribution process in Rule 2.5(a)(iii) of this Annex, those Market Losses will be attributed to the remaining SwapClear Unfunded Contributions of each Non-Defaulter *pro rata* according to the proportion that the remaining SwapClear Unfunded Contributions of such Non-Defaulter bear to the total of all such remaining SwapClear Unfunded Contributions.
- (v) If and to the extent there are Market Losses outstanding after the attribution process in Rule 2.5(a)(iv) of this Annex, those Market Losses will be attributed to the remaining Listed Interest Rates Unfunded Contributions of each Non-Defaulting Joint Rates Service Clearing Member (other than, for the avoidance of doubt, a Non-Defaulting Joint Rates Service Clearing Member that is a PM Eligible SCM) *pro rata* according to the proportion that the remaining Listed Interest Rates Unfunded Contributions of such Non-Defaulting Joint Rates Service Clearing Member bear to the total of the remaining Listed Interest Rates Unfunded Contributions of all Non-Defaulting Joint Rates Service Clearing Members.
- (vi) If and to the extent there are Market Losses outstanding after the attribution process in Rule 2.5(a)(v) of this Annex, those Market Losses will be attributed to the remaining Listed Interest Rates Unfunded Contributions of each Non-Defaulting Listed Interest Rates-Only Clearing Member *pro rata* according to the proportion that the remaining Listed Interest Rates Unfunded Contributions of such Non-Defaulting Listed Interest Rates-Only Clearing Member bear to the total of the remaining Listed Interest Rates Unfunded Contributions of all Non-Defaulting Listed Interest Rates-Only Clearing Members.

(b) Where the Clearing House, in consultation with and with the assistance of the Rates Service DMG, determines to liquidate the Portfolio Margined Contracts in a Portfolio under the Exchange Rules of the Exchange to which they relate, any losses in respect of such liquidation will be attributed to Non-Defaulters' remaining SwapClear Contributions and remaining Listed Interest Rates Contributions in accordance with the loss attribution process described in Rule 2.5(a) of this Annex.

(c) ~~(b)~~ The Clearing House will attribute Market Losses (if any) pursuant to Rule 2.5(a) of this Annex on each business day during the implementation of the Rates Service DMP at the same time as its end of day margin and settlement call.

(d) ~~(e)~~ For the avoidance of doubt, (i) the calculation of Market Losses is determined with reference to the actual or anticipated losses and/or costs of the Clearing House in accordance with these Rules and shall not be reduced with

reference to any action taken in respect of a Rates Service Clearing Member by a resolution authority, including any write-down or conversion of liabilities of such Rates Service Clearing Member; and (ii) any sum payable in respect of Market Losses under these Rules shall not be affected by an action taken in respect of a Rates Service Clearing Member by a resolution authority, including any write-down or conversion of liabilities of such Rates Service Clearing Member.

2.6 *Auction Incentive Pools*

- (a) The Clearing House will calculate an auction incentive pool (each, an "AIP") for:
 - (i) the OTC Auction Portfolio(s) in a specific Auction Portfolio Currency and Auction Portfolio Category; and
 - (ii) each Basis Portfolio.
- (b) The AIP for the OTC Auction Portfolio(s) in a specific Auction Portfolio Currency and Auction Portfolio Category will be the sum of the AIP Amounts for such OTC Auction Portfolio(s).
- (c) The AIP for a Basis Portfolio will be the sum of the AIP Amounts for such Basis Portfolio.
- (d) For the avoidance of doubt, an AIP and the AIP Amounts which comprise such AIP will change as the remaining SwapClear Funded Contributions and remaining SwapClear Unfunded Contributions change throughout the implementation of the Rates Service DMP.

2.7 *Auction Losses – OTC Auction Portfolios*

- (a) Auction Losses, in respect of an OTC Auction Portfolio, will be met using the available resources as set out in Rule 15 of the Default Rules. Where the Clearing House determines there are insufficient resources under Rules 15(a) to 15(d) of the Default Rules (inclusive) to meet such losses, they will be attributed to Non-Defaulters' remaining SwapClear Contributions and remaining Listed Interest Rates Contributions in accordance with the loss attribution process described in Rule 2.7(b) to 2.7(i) of this Annex.
- (b) In the case of an Auction of an OTC Auction Portfolio, for which the Clearing House determines there are insufficient resources under Rule 15(a) to 15(d) of the Default Rules (inclusive) to meet the Auction Losses for such Auction, such losses will be met first by the Non-Defaulters' remaining SwapClear Funded Contributions that are included in the AIP relating to the OTC Auction Portfolio in the following order and proportions:
 - (i) the Auction Losses will be attributed to the remaining AIP Amounts of those Non-Defaulting SCMs which are both Expected Auction Participants, in respect of the OTC Auction Portfolio, and Non-Bidders in the Auction. Auction Losses will be attributed to the remaining AIP

Amount of each such Non-Defaulting SCM pursuant to this subparagraph (i) *pro rata* according to the proportion that such SCM's remaining AIP Amount bears to the total of the remaining AIP Amounts of all Non-Defaulting SCMs which are both Expected Auction Participants, in respect of the OTC Auction Portfolio, and Non-Bidders in the Auction;

(ii) if and to the extent there are Auction Losses outstanding after the attribution process in sub-paragraph (i) above, those Auction Losses will be attributed to the remaining AIP Amounts of the Remaining Short Bidders for the OTC Auction Portfolio in accordance with this subparagraph (ii). Where:

(A) the Loss Portion applicable to each Remaining Short Bidder is less than or equal to its remaining AIP Amount, then the Clearing House will, in respect of each Remaining Short Bidder, attribute Auction Losses equal to the Loss Portion applicable to the Remaining Short Bidder to its remaining AIP Amount; or

(B) the Loss Portion applicable to one or more Remaining Short Bidders is greater than its remaining AIP Amount, then the Clearing House will attribute Auction Losses to all of the remaining AIP Amounts of such Remaining Short Bidders only (so that they cease to be Remaining Short Bidders for the purposes of this Rule 2.7(b)(ii) and the Auction) and will repeat the loss attribution process in this Rule 2.7(b)(ii) for any outstanding Auction Losses until the Auction Losses are fully met or the remaining AIP Amounts of all Remaining Short Bidders for the OTC Auction Portfolio are fully attributed; and

(iii) if and to the extent there are Auction Losses outstanding after the attribution process in sub-paragraph (ii) above, those Auction Losses will be attributed to the remaining AIP Amount of the Non-Defaulting SCM who submitted the winning bid in the Auction, together with (where applicable) the remaining AIP Amount of any Non-Defaulting SCM who submitted a bid which was an Equal Bid or an Out Bid in relation to that winning bid. The outstanding Auction Losses will be attributed to the remaining AIP Amount of each such SCM pursuant to this sub-paragraph (iii) *pro rata* according to the proportion that such SCM's remaining AIP Amount bears to the total of the remaining AIP Amounts of: (A) the SCM which submitted the winning bid in the Auction; (B) any SCMs which submitted an Equal Bid to such winning bid in the Auction; and (C) any SCMs which were Out Bidders in the Auction.

(c) If and to the extent there are Auction Losses outstanding following the attribution process in Rule 2.7(b) of this Annex, those Auction Losses will be attributed to the remaining SwapClear Funded Contribution of each Non-Defaulting SCM *pro rata* according to the proportion that the remaining

SwapClear Funded Contribution of such Non-Defaulting SCM bears to the total of the remaining SwapClear Funded Contributions of all Non-Defaulting SCMs.

- (d) If and to the extent there are Auction Losses outstanding following the attribution process in Rule 2.7(c) of this Annex, those Auction Losses will be attributed to the remaining Listed Interest Rates Funded Contribution of each Non-Defaulting Joint Rates Service Clearing Member (other than, for the avoidance of doubt, a Non-Defaulting Joint Rates Service Clearing Member that is a PM Eligible SCM) *pro rata* according to the proportion that the remaining Listed Interest Rates Funded Contribution of such Non-Defaulting Joint Rates Service Clearing Member bears to the total remaining Listed Interest Rates Funded Contributions of all Non-Defaulting Joint Rates Service Clearing Members.
- (e) If and to the extent there are Auction Losses outstanding following the attribution process in Rule 2.7(d) of this Annex, those Auction Losses will be attributed to the remaining Listed Interest Rates Funded Contribution of each Non-Defaulting Listed Interest Rates-Only Clearing Member *pro rata* according to the proportion that the remaining Listed Interest Rates Funded Contribution of such Non-Defaulting Listed Interest Rates-Only Clearing Member bears to the total remaining Listed Interest Rates Funded Contributions of all Non-Defaulting Listed Interest Rates-Only Clearing Members.
- (f) If and to the extent there are Auction Losses outstanding following the attribution process in Rule 2.7(e) of this Annex, the remaining SwapClear Unfunded Contributions that are included in the AIP relating to the OTC Auction Portfolio will be used in the following order:
 - (i) the Auction Losses will be attributed to the remaining AIP Amounts of those Non-Defaulting SCMs which are both Expected Auction Participants, in respect of the OTC Auction Portfolio, and Non-Bidders in the Auction. Auction Losses will be attributed to the remaining AIP Amount of each such Non-Defaulting SCM pursuant to this sub-paragraph (i) *pro rata* according to the proportion that such SCM's remaining AIP Amount bears to the total of the remaining AIP Amounts of all SCMs which are both Expected Auction Participants, in respect of the OTC Auction Portfolio, and Non-Bidders in the Auction;
 - (ii) if and to the extent there are Auction Losses outstanding after the attribution process referred to in sub-paragraph (i) above, those Auction Losses will be attributed to the remaining AIP Amounts of the Remaining Short Bidders for the OTC Auction Portfolio in accordance with this sub-paragraph (ii). Where:
 - (A) the Loss Portion applicable to each Remaining Short Bidder is less than or equal to its remaining AIP Amount, then the Clearing House will, in respect of each Remaining Short Bidder, attribute Auction Losses equal to the Loss Portion applicable to the Remaining Short Bidder to its remaining AIP Amount; or

- (B) the Loss Portion applicable to one or more Remaining Short Bidders is greater than its remaining AIP Amount, then the Clearing House will attribute Auction Losses to all of the remaining AIP Amounts of such Remaining Short Bidders only (so that they cease to be Remaining Short Bidders for the purposes of this Rule 2.7(f)(ii) and the Auction) and will repeat the loss attribution process in this Rule 2.7(f)(ii) for any outstanding Auction Losses until the Auction Losses are fully met or the remaining AIP Amounts of all Remaining Short Bidders for the OTC Auction Portfolio are fully attributed; and
- (iii) If and to the extent there are Auction Losses outstanding after the attribution process referred to in sub-paragraph (ii) above, those Auction Losses will be attributed to the remaining AIP Amounts of the Non-Defaulting SCM who submitted the winning bid, together with (where applicable) the remaining AIP Amount of any Non-Defaulting SCM who submitted a bid which was an Equal Bid or an Out Bid in relation to that winning bid. The outstanding Auction Losses will be attributed to the remaining AIP Amount of each such Non-Defaulting SCM pursuant to this subparagraph (iii) *pro rata* according to the proportion that such SCM's remaining AIP Amount bears to the total of the remaining AIP Amounts of: (A) the SCM which submitted the winning bid in the Auction; (B) any SCMs which submitted an Equal Bid to such winning bid in the Auction; and (C) any SCMs which were Out Bidders in the Auction.
- (g) If and to the extent there are Auction Losses outstanding following the attribution process referred to in Rule 2.7(f) of this Annex, those Auction Losses will be attributed to the remaining SwapClear Unfunded Contributions of each Non-Defaulting SCM *pro rata* according to the proportion that the remaining SwapClear Unfunded Contributions of such Non-Defaulting SCM bear to the total of the remaining SwapClear Unfunded Contributions of all Non-Defaulting SCMs.
- (h) If and to the extent there are Auction Losses outstanding following the attribution process referred to in Rule 2.7(g) of this Annex, those Auction Losses will be attributed to the remaining Listed Interest Rates Unfunded Contributions of each Non-Defaulting Joint Rates Service Clearing Member [\(other than, for the avoidance of doubt, a Non-Defaulting Joint Rates Service Clearing Member that is a PM Eligible SCM\)](#) *pro rata* according to the proportion that the remaining Listed Interest Rates Unfunded Contributions of such Non-Defaulting Joint Rates Service Clearing Member bear to the total remaining Listed Interest Rates Unfunded Contributions of all Non-Defaulting Joint Rates Service Clearing Members.
- (i) If and to the extent that there are Auction Losses outstanding following the attribution process described in Rule 2.7(h) of this Annex, those Auction Losses will be attributed to the remaining Listed Interest Rates Unfunded Contributions of each Non-Defaulting Listed Interest Rates-Only Clearing Member *pro rata* according to proportion that remaining Listed Interest Rates Unfunded Contributions of such Non-Defaulting Listed Interest Rates-Only Clearing

Member bear to the total remaining Listed Interest Rates Unfunded Contributions of all Non-Defaulting Listed Interest Rates-Only Clearing Members.

- (j) For the avoidance of doubt, (i) the calculation of Auction Losses is determined with reference to the actual or anticipated losses and/or costs of the Clearing House in accordance with these Rules and shall not be reduced with reference to any action taken in respect of a Rates Service Clearing Member by a resolution authority, including any write-down or conversion of liabilities of such Rates Service Clearing Member; and (ii) any sum payable in respect of Auction Losses under these Rules shall not be affected by an action taken in respect of a Rates Service Clearing Member by a resolution authority, including any write-down or conversion of liabilities of such Rates Service Clearing Member.

2.8 ***Auction Losses - Basis Portfolios***

- (a) Auction Losses, in respect of a Basis Portfolio, will be met using the available resources as set out in Rule 15 of the Default Rules. Where the Clearing House determines there are insufficient resources under Rules 15(a) to 15(d) of the Default Rules (inclusive) to meet such losses, they will be attributed to Non-Defaulters' remaining SwapClear Contributions and remaining Listed Interest Rates Contributions in accordance with the loss attribution process described in Rule 2.8(b) to 2.8(i) of this Annex.
- (b) In the case of an Auction of a Basis Portfolio, for which the Clearing House determines there are insufficient resources under Rule 15(a) to 15(d) of the Default Rules (inclusive) to meet the Auction Losses for such Auction, such losses will be met first by the Non-Defaulting Joint Rates Service Clearing Members' remaining SwapClear Funded Contributions that are included in the AIP relating to the Basis Portfolio in the following order and proportions:
- (i) the Auction Losses will be attributed to the remaining AIP Amounts of those Non-Defaulting Joint Rates Service Clearing Members which are Non-Bidders in the Auction. Auction Losses will be attributed to the remaining AIP Amount of each such Non-Defaulting Joint Rates Service Clearing Member pursuant to this sub-paragraph (i) *pro rata* according to the proportion that such Non-Defaulting Joint Rates Service Clearing Member's remaining AIP Amount bears to the total of the remaining AIP Amounts of all Non-Defaulting Joint Rates Service Clearing Members which are Non-Bidders in the Auction;
- (ii) if and to the extent there are Auction Losses outstanding after the attribution process in sub-paragraph 2.7(b)(i) above, those Auction Losses will be attributed to the remaining AIP Amounts of the Remaining Short Bidders for the Basis Portfolio in accordance with this sub-paragraph (ii). Where:
- (A) the Loss Portion applicable to each Remaining Short Bidder is less than or equal to its remaining AIP Amount, then the Clearing House will, in respect of each Remaining Short Bidder, attribute

Auction Losses equal to the Loss Portion applicable to the Remaining Short Bidder to its remaining AIP Amount; or

- (B) the Loss Portion applicable to one or more Remaining Short Bidders is greater than its remaining AIP Amount, then the Clearing House will attribute Auction Losses to all of the remaining AIP Amounts of such Remaining Short Bidders only (so that they cease to be Remaining Short Bidders for the purposes of this Rule 2.8(b)(ii) and the Auction) and will repeat the loss attribution process in this Rule 2.8(b)(ii) for any outstanding Auction Losses until the Auction Losses are fully met or the remaining AIP Amounts of all Remaining Short Bidders for the Basis Portfolio are fully attributed; and
- (iii) if and to the extent there are Auction Losses outstanding after the attribution process in sub-paragraph 2.7(b)(ii) above, those Auction Losses will be attributed to the remaining AIP Amount of the Non-Defaulting Joint Rates Service Clearing Member who submitted the winning bid in the Auction, together with (where applicable) the remaining AIP Amount of any Non-Defaulting Joint Rates Service Clearing Member who submitted a bid which was an Equal Bid or an Out Bid in relation to that winning bid. The outstanding Auction Losses will be attributed to the remaining AIP Amount of each such Non-Defaulting Joint Rates Service Clearing Member pursuant to this subparagraph (iii) *pro rata* according to the proportion that such Non-Defaulting Joint Rates Service Clearing Member's remaining AIP Amount bears to the total of the remaining AIP Amounts of: (A) the Joint Rates Service Clearing Member which submitted the winning bid in the Auction; (B) any Joint Rates Service Clearing Members which submitted an Equal Bid to such winning bid in the Auction; and (C) any Joint Rates Service Clearing Member which were Out Bidders in the Auction.
- (c) If and to the extent there are Auction Losses outstanding following the attribution process in Rule 2.8(b) of this Annex, those Auction Losses will be attributed to the remaining SwapClear Funded Contribution of each Non-Defaulting SCM *pro rata* according to the proportion that the remaining SwapClear Funded Contribution of such Non-Defaulting SCM bears to the total of the remaining SwapClear Funded Contributions of all Non-Defaulting SCMs.
- (d) If and to the extent there are Auction Losses outstanding following the attribution process in Rule 2.8(c) of this Annex, those Auction Losses will be attributed to the remaining Listed Interest Rates Funded Contribution of each Non-Defaulting Joint Rates Service Clearing ~~Members~~ Member (other than, for the avoidance of doubt, a Non-Defaulting Joint Rates Service Clearing Member that is a PM Eligible SCM) *pro rata* according to the proportion that the remaining Listed Interest Rates Funded Contribution of such Non-Defaulting Joint Rates Service Clearing Member bears to the total remaining Listed Interest Rates Funded Contributions of all Non-Defaulting Joint Rates Service Clearing Members.

- (e) If and to the extent there are Auction Losses outstanding following the attribution process in Rule 2.8(d) of this Annex, those Auction Losses will be attributed to the remaining Listed Interest Rates Funded Contribution of each Non-Defaulting Listed Interest Rates-Only Clearing Member *pro rata* according to the proportion that the remaining Listed Interest Rates Funded Contribution of such Non-Defaulting Listed Interest Rates-Only Clearing Member bears to the total remaining Listed Interest Rates Funded Contributions of all Non-Defaulting Listed Interest Rates-Only Clearing Members.
- (f) If and to the extent there are Auction Losses outstanding following the attribution process in Rule 2.8(e) of this Annex, the remaining SwapClear Unfunded Contributions that are included in the AIP relating to the Basis Portfolio will be used in the following order:
 - (i) the Auction Losses will be attributed to the remaining AIP Amounts of those Non-Defaulting Joint Rates Service Clearing Members which are Non-Bidders in the Auction. Auction Losses will be attributed to the remaining AIP Amount of each such Non-Defaulting Joint Rates Service Clearing Member pursuant to this sub-paragraph (i) *pro rata* according to the proportion that such Non-Defaulting Joint Rates Service Clearing Member's remaining AIP Amount bears to the total of the remaining AIP Amounts of all Non-Defaulting Joint Rates Service Clearing Members which are Non-Bidders in the Auction;
 - (ii) if and to the extent there are Auction Losses outstanding after the attribution process referred to in sub-paragraph (i) above, those Auction Losses will be attributed to the remaining AIP Amounts of the Remaining Short Bidders for the Basis Portfolio in accordance with this sub-paragraph (ii). Where:
 - (A) the Loss Portion applicable to each Remaining Short Bidder is less than or equal to its remaining AIP Amount, then the Clearing House will, in respect of each Remaining Short Bidder, attribute Auction Losses equal to the Loss Portion applicable to the Remaining Short Bidder to its remaining AIP Amount; or
 - (B) the Loss Portion applicable to one or more Remaining Short Bidders is greater than its remaining AIP Amount, then the Clearing House will attribute Auction Losses to all of the remaining AIP Amounts of such Remaining Short Bidders only (so that they cease to be Remaining Short Bidders for the purposes of this Rule 2.8(f)(ii) and the Auction) and will repeat the loss attribution process in this Rule 2.8(f)(ii) for any outstanding Auction Losses until the Auction Losses are fully met or the remaining AIP Amounts of all Remaining Short Bidders for the Basis Portfolio are fully attributed; and
 - (iii) if and to the extent there are Auction Losses outstanding after the attribution process referred to in sub-paragraph (ii) above, those Auction Losses will be attributed to the remaining AIP Amounts of the Non-

Defaulting Joint Rates Service Clearing Members who submitted the winning bid, together with (where applicable) the remaining AIP Amount of any Non-Defaulting Joint Rates Service Clearing Member who submitted a bid which was an Equal Bid or an Out Bid in relation to that winning bid. The outstanding Auction Losses will be attributed to the remaining AIP Amount of each such Non-Defaulting Joint Rates Service Clearing Member pursuant to this sub-paragraph (iii) *pro rata* according to the proportion that such Non-Defaulting Joint Rates Service Clearing Member's remaining AIP Amount bears to the total of the remaining AIP Amounts of: (A) the Joint Rates Service Clearing Member which submitted the winning bid in the Auction; (B) any Joint Rates Service Clearing Members which submitted an Equal Bid to such winning bid in the Auction; and (C) any Joint Rates Service Clearing Members which were Out Bidders in the Auction.

- (g) If and to the extent there are Auction Losses outstanding following the attribution process referred to in Rule 2.8(f) of this Annex, those Auction Losses will be attributed to the remaining SwapClear Unfunded Contributions of each Non-Defaulting SCM *pro rata* according to the proportion that the remaining SwapClear Unfunded Contributions of such Non-Defaulting SCM bear to the total of the remaining SwapClear Unfunded Contributions of all Non-Defaulting SCMs.
- (h) If and to the extent there are Auction Losses outstanding following the attribution process referred to in Rule 2.8(g) of this Annex, those Auction Losses will be attributed to the remaining Listed Interest Rates Unfunded Contributions of each Non-Defaulting Joint Rates Service Clearing Member (other than, for the avoidance of doubt, a Non-Defaulting Joint Rates Service Clearing Member that is a PM Eligible SCM) *pro rata* according to the proportion that the remaining Listed Interest Rates Unfunded Contributions of such Non-Defaulting Joint Rates Service Clearing Member bear to the total remaining Listed Interest Rates Unfunded Contributions of all Non-Defaulting Joint Rates Service Clearing Members.
- (i) If and to the extent that there are Auction Losses outstanding following the attribution process described in Rule 2.8(h) of this Annex, those Auction Losses will be attributed to the remaining Listed Interest Rates Unfunded Contributions of each Non-Defaulting Listed Interest Rates-Only Clearing Member *pro rata* according to proportion that remaining Listed Interest Rates Unfunded Contributions of such Non-Defaulting Listed Interest Rates-Only Clearing Member bear to the total remaining Listed Interest Rates Unfunded Contributions of all Non-Defaulting Listed Interest Rates-Only Clearing Members.
- (j) For the avoidance of doubt, (i) the calculation of Auction Losses is determined with reference to the actual or anticipated losses and/or costs of the Clearing House in accordance with these Rules and shall not be reduced with reference to any action taken in respect of a Rates Service Clearing Member by a resolution authority, including any write-down or conversion of liabilities of such Rates Service Clearing Member; and (ii) any sum payable in respect of Auction Losses under these Rules shall not be affected by an action taken in

respect of a Rates Service Clearing Member by a resolution authority, including any write-down or conversion of liabilities of such Rates Service Clearing Member.

2.9 *Exchange Closed-Out Contracts*

- (a) Exchange Losses relating to a Defaulting Listed Interest Rates-Only Clearing Member will be met using the available resources as set out in Rule 15 of the Default Rules. Where the Clearing House determines there are insufficient resources under Rules 15(a) to 15(d) of the Default Rules (inclusive) to meet such losses, they will be met in the following order and proportions:
- (i) first, by recourse to the Listed Interest Rates Funded Contribution of each Non-Defaulting Listed Interest Rates Clearing Member attributed *pro rata* according to the proportion that the Listed Interest Rates Funded Contribution of such Non-Defaulting Listed Interest Rates Clearing Member bears to the total of the Listed Interest Rates Funded Contributions of all Non-Defaulting Listed Interest Rates Clearing Members;
 - (ii) second, by recourse to the SwapClear Funded Contributions of each Non-Defaulting SCM attributed *pro rata* according to the proportion that the SwapClear Funded Contribution of such Non-Defaulting SCM bears to the total of the SwapClear Funded Contributions of all Non-Defaulting SCMs;
 - (iii) third, by recourse to the Listed Interest Rates Unfunded Contributions of each Non-Defaulting Listed Interest Rates Clearing Member attributed *pro rata* according to the proportion that the Listed Interest Rates Unfunded Contribution of such Non-Defaulting Listed Interest Rates Clearing Member bears to the total of the Listed Interest Rates Unfunded Contributions of all Non-Defaulting Listed Interest Rates Clearing Members; and
 - (iv) fourth, by recourse to the SwapClear Unfunded Contributions of each Non-Defaulting SCM attributed *pro rata* according to the proportion that the SwapClear Unfunded Contributions of such Non-Defaulting SCM bear to the total of the SwapClear Unfunded Contributions of all Non-Defaulting SCMs.
- (b) Exchange Losses relating to a Defaulting Joint Rates Service Clearing will be met using the available resources as set out in Rule 15 of the Default Rules. Where the Clearing House determines there are insufficient resources under Rules 15(a) to 15(d) of the Default Rules (inclusive) to meet such losses, they will be met in the following order and proportions:
- (i) first, recourse to the remaining Listed Interest Rates Funded Contributions of each Non-Defaulting Joint Rates Service Clearing Member attributed *pro rata* according to the proportion that the remaining Listed Interest Rates Funded Contribution of such Non-Defaulting Joint Rates Service Clearing Member bears to the total of the

remaining Listed Interest Rates Funded Contributions of all Non-Defaulting Joint Rates Service Clearing Members;

- (ii) second, by recourse to the remaining Listed Interest Rates Funded Contribution of each Non-Defaulting Listed Interest -Only Clearing Member attributed *pro rata* according to the proportion that the remaining Listed Interest Rates Funded Contribution of such Non-Defaulting Listed Interest Rates-Only Clearing Member bears to the total of the remaining Listed Interest Rates Funded Contributions of all Non-Defaulting Listed Interest Rates-Only Clearing Members;
 - (iii) third, by recourse to the remaining SwapClear Funded Contributions of each Non-Defaulting SCM attributed *pro rata* according to the proportion that the remaining SwapClear Funded Contribution of such Non-Defaulting SCM bears to the total of the remaining SwapClear Funded Contributions of all Non-Defaulting SCMs;
 - (iv) fourth, by recourse to the remaining Listed Interest Rates Unfunded Contributions of each Non-Defaulting Joint Rates Service Clearing attributed *pro rata* according to the proportion that the remaining Listed Interest Rates Unfunded Contributions of such Non-Defaulting Joint Rates Service Clearing Member bears to the total of the remaining Listed Interest Rates Unfunded Contributions of all Non-Defaulting Joint Rates Service Clearing Members;
 - (v) fifth, by recourse to the remaining Listed Interest Rates Unfunded Contributions of each Non-Defaulting on Listed Interest Rates-Only Clearing Member attributed *pro rata* according to the proportion that the remaining Listed Interest Rates Unfunded Contribution of such Non-Defaulting Listed Interest Rates-Only Clearing Member bears to the total of the remaining Listed Interest Rates Unfunded Contributions of all Non-Defaulting Listed Interest Rates-Only Clearing Members; and
 - (vi) sixth, by recourse to the remaining SwapClear Unfunded Contributions of each Non-Defaulting SCM attributed *pro rata* according to the proportion that the remaining SwapClear Unfunded Contribution of such Non-Defaulting SCM bears to the total of the remaining SwapClear Unfunded Contributions of all Non-Defaulting SCMs.
- (c) For the avoidance of doubt, (i) the calculation of Exchange Losses is determined with reference to the actual or anticipated losses and/or costs of the Clearing House in accordance with these Rules and shall not be reduced with reference to any action taken in respect of a Listed Interest Rates Clearing Member and/or Joint Rates Service Clearing Member by a resolution authority, including any write-down or conversion of liabilities of such Listed Interest Rates Clearing Member and/or Joint Rates Service Clearing Member; and (ii) any sum payable in respect of Exchange Losses under these Rules shall not be affected by an action taken in respect of a Listed Interest Rates Clearing Member and/or Joint Rates Service Clearing Member by a resolution authority, including any write-down or conversion of liabilities of such Listed Interest Rates Clearing Member and/or Joint Rates Service Clearing Member

2.10 Gains

- (a) If, at any point during the Rates Service DMP, but before the implementation of the Rates Service Loss Distribution Process, the Clearing House determines that gains have accrued in respect of any OTC Auction Portfolio(s) and/or Basis Portfolio(s), it will reimburse each Non-Defaulter (to the extent that Market Losses, Exchange Losses or Auction Losses have been attributed to it pursuant to this Annex) by the amount of such gains in the following order and proportions:
- (A) The Clearing House will reimburse each Non-Defaulter for such gains *pro rata* according to the proportion that the Market Losses and Exchange Losses attributed to such Non-Defaulter's Rates Service Unfunded Contributions bear to the total Market Losses and Exchange Losses attributed to all Non-Defaulters' Rates Service Unfunded Contributions, up to a maximum of the Market Losses and Exchange Losses attributed to such Non-Defaulter's Rates Service Unfunded Contributions.
 - (B) If and to the extent there are gains remaining to be reimbursed following the process described in Rule 2.10(a)(i) of this Annex, the Clearing House will reimburse each Non-Defaulter for such gains *pro rata* according to the proportion that the Auction Losses attributed to such Non-Defaulter's SwapClear Unfunded Contributions bear to the total Auction Losses attributed to all Non-Defaulters' SwapClear Unfunded Contributions, up to a maximum of the Auction Losses attributed to such Non-Defaulter's SwapClear Unfunded Contributions.
 - (C) If and to the extent there are gains remaining to be reimbursed following the process described in Rule 2.10(a)(ii) of this Annex, the Clearing House will reimburse each Non-Defaulter for such gains *pro rata* according to the proportion that the Market Losses and Exchange Losses ~~attributed~~attributed to such Non-Defaulter's Rates Service Funded Contribution bear to the total Market Losses and Exchange Losses attributed to all Non-Defaulters' Rates Service Funded Contributions, up to a maximum of the Market Losses and Exchange Losses attributed to such Non-Defaulter's Rates Service Funded Contribution.
 - (D) If and to the extent there are gains remaining to be reimbursed following the process described in Rule 2.10(a)(iii) of this Annex, the Clearing House will reimburse each Non-Defaulter for such gains *pro rata* according to the proportion that the Auction Losses attributed to such Non-Defaulter's SwapClear Funded Contribution bear to the total Auction Losses attributed to all Non-Defaulters' SwapClear Funded Contributions, up to a maximum of the Auction Losses attributed to such Non-Defaulter's SwapClear Funded Contribution.
- (b) The Clearing House's calculation of the amount by which a gain that is reimbursed to a Non-Defaulter pursuant to Rule 2.10(a)(i), (ii), (iii) and/or (iv) of this Annex increases such Non-Defaulter's SwapClear Contributions and/or Listed Interest Rates Contributions is determinative and final and, after such

reimbursement and increase, the totality of such Non-Defaulter's Rates Service Contributions will be subject to subsequent attribution of losses (if any) pursuant to this Annex.

- (c) Rule CS8 of the Rates Service Default Fund Supplement will not apply to the gains reimbursed to this Rule 2.10.
3. Default Management in respect of Rates Service Client Clearing Business and FCM Rates Service Client Business
- 3.1 The Rates Service DMP for any Rates Service Contract in respect of Rates Service Client Clearing Business shall involve the stages described in the Client Clearing Annex (which such stages, for the avoidance of doubt, will result in a Rates Service Contract in respect of Rates Service Client Clearing Business being dealt with in accordance with Rule 2 above in the event that it cannot be ported by the Clearing House).
 - 3.2 The Rates Service DMP for any FCM Rates Service Contract forming part of a Defaulter's FCM Rates Service shall be conducted in accordance with FCM Regulation 13(e) (*Transfer*). The provisions of Default Rule 10 shall also apply.
4. Transfer of Cash Flows and Registration of Positions
- 4.1 Following the disposal of an OTC Auction Portfolio or a Basis Portfolio by way of Auction (and notwithstanding that other OTC Auction Portfolios and/or Basis Portfolios of the Defaulting SCM may not yet have been auctioned) the Clearing House, will, with the co-operation of the Non-Defaulting SCMs, transfer to the Non-Defaulting SCM whose bid won the relevant OTC Auction Portfolio or Basis Portfolio (as the case may be) the rights and obligations, from the Defaulting SCM, arising out of the positions which that Non-Defaulting SCM has successfully bid for under the Rates Service DMP. Such transfer may take place by way of registration of new positions with the Clearing House in the name of the relevant Non-Defaulting SCM, or novation of rights and obligations to the relevant Non-Defaulting SCM. All such registrations shall be made in a way that recognises the Collateral paid or received in respect of variation margin and any amounts paid or received in respect of settlement in relation to the Rates Service Contracts of the Defaulting SCM representing such new positions.
 - 4.2 In order to effect the transfer of positions, the Clearing House shall prescribe such procedures and timetable as it considers reasonably appropriate in the circumstances. SCMs will be required to exercise best endeavours to comply with such requirements as may be established by the Clearing House, after consultation with the Rates Service DMG, to effect the transfer of positions, including but not limited to the payment of any sums due as a result of the winning bid and the provision of Collateral in an amount required by the Clearing House in respect of initial margin and variation margin obligations in respect of positions which are to be registered in their names. The Clearing House agrees that in such procedures it shall make provision for set-off by the Clearing House of amounts owed by the Clearing House to individual Non-Defaulting SCMs as a result of the operation of the Rates Service DMP against sums owed by those individual SCMs to the Clearing House in respect thereof.

PART A

RATES SERVICE DEFAULT FUND SUPPLEMENT – SWAPCLEAR

S1. SwapClear Contributions to the Rates Service Fund

Each SCM's SwapClear Contribution (other than any SwapClear Unfunded Contribution or any Supplementary Contribution) shall be determined by the Clearing House in accordance with the following provisions:

- (a) determinations will be made by the Clearing House on the first business day of each month, and at the time on such day determined by the Clearing House, otherwise in accordance with paragraph (n) below (each, a "**SwapClear Determination Date**") on the basis of information available as at on the immediately preceding business day and notified to such Member as soon as practicable after such determination in accordance with the Procedures. In addition, the amount payable in respect of the SwapClear Contribution of an SCM which is a New Member will be determined on the date that the relevant New Member joins the SwapClear Service. Notwithstanding the foregoing, following a Default, any determinations on a SwapClear Determination Date and any such SwapClear Determination Date which might otherwise have occurred under this Rule S1 shall be suspended for the duration of the period (the "**SwapClear Default Period**") commencing on the date of such Default and terminating on the later to occur of the following times:
 - (i) the time, as determined by the Clearing House, on the day falling 30 calendar days after the Rates Service Default Management Process Completion Date in relation to such Default (or, if such day is not a business day, the next succeeding business day); and
 - (ii) where, prior to the end of the period referred to in sub-paragraph (i) above (or such period as has already been extended pursuant to this sub-paragraph (ii)) one or more subsequent Defaults (each a "**Relevant Default**") occur, the time, as determined by the Clearing House, on the day falling 30 calendar days after the Rates Service Default Management Process Completion Date in relation to a Relevant Default which falls latest in time (or, if such day is not a business day, the next succeeding business day).
- (b) the "**SwapClear Tolerance Weight**" of an SCM (other than an SCM which is a New Member) shall be calculated by dividing (x) the average SwapClear Tolerance Utilisation of the relevant SCM during the 20 business day period preceding the relevant SwapClear Determination Date in respect of all SwapClear Contracts to which such SCM is a party, which average shall be calculated by adding together the peak SwapClear Tolerance Utilisation of such SCM for each relevant business day and then dividing such sum by 20, provided that for SCMs where the peak SwapClear Tolerance Utilisation does not yet exist or is otherwise unavailable in respect of a business day the Clearing House shall estimate the relevant peak SwapClear Tolerance Utilisation by reference to the actual or expected level of clearing activity of the relevant SCM in relation to SwapClear Contracts; by (y) the total of such average SwapClear

Tolerance Utilisations of all Non-Defaulting SCMs other than SCMs which are New Members;

- (c) the value of the "**SwapClear Tolerance Contribution Amount**" of: (x) an SCM (other than an SCM which is a New Member) shall be calculated by multiplying the SwapClear Tolerance Amount by the SCM's SwapClear Tolerance Weight, provided that (i) where that calculation results in a value which is less than or equal to £4 million pounds, or in the case of a New Member, the value of the relevant SCM's SwapClear Tolerance Contribution Amount shall be £4 million pounds; and (ii) where that calculation results in a value which is greater than or equal to £30 million pounds, the value of the relevant SCM's SwapClear Tolerance Contribution Amount shall be £30 million pounds; and (y) a New Member shall be £4 million pounds PROVIDED FURTHER that where, as a result of the adjustments in individual SCM SwapClear Tolerance Contribution Amounts as described in this paragraph, the aggregate of the SwapClear Tolerance Contribution Amounts is greater or less than the SwapClear Tolerance Amount the Clearing House will adjust SCMs individual SwapClear Tolerance Contribution Amounts such that the aggregate of the SwapClear Tolerance Contributions equals the SwapClear Tolerance Amount;
- (d) the "**SwapClear Non-Tolerance Amount**" shall be the value of that portion of the Rates Service Fund Amount – SwapClear after deducting the SwapClear Tolerance Amount;
- (e) the value of the "**SwapClear Non-Tolerance Contribution Amount**" for a given SCM (other than an SCM that is a New Member) shall be calculated by multiplying the SwapClear Non-Tolerance Amount by the SCM's SwapClear Non-Tolerance Weight;
- (f) the "**SwapClear Non-Tolerance Weight**" of an SCM shall be calculated by dividing (i) the Uncovered Stress Loss associated with such SCM's SwapClear Contracts (and, in the case of a PM Eligible SCM, its Portfolio Margined Contracts) by (ii) the total Uncovered Stress Loss applied to all Non-Defaulting SCMs with respect to their SwapClear Contracts (and, in the case of a PM Eligible SCM, its Portfolio Margined Contracts), in each case where the SwapClear Contracts (and, in the case of a PM Eligible SCM, its Portfolio Margined Contracts) are (A) entered into on the SCM's own behalf or with respect to a ~~SwapClear~~-Clearing Client or an FCM Client and (B) open and outstanding during the 20 business day period preceding the relevant SwapClear Determination Date. An SCM's "**Uncovered Stress Loss**," as determined in accordance with the foregoing, shall be determined by the Clearing House (and notified to each SCM) from time to time by, *inter alia*, deducting the amount of eligible margin held by the Clearing House with respect to the relevant SwapClear Contracts (and, in the case of a PM Eligible SCM, its Portfolio Margined Contracts) from the stress loss associated with such SwapClear Contracts (and, in the case of a PM Eligible SCM, its Portfolio Margined Contracts), **provided** that the Clearing House may, in determining the Uncovered Stress Loss of an SCM, take into account, *inter alia*, the number of alternative ~~SwapClear~~-Clearing Members that clear SwapClear Contracts and/or Listed Interest Rates Contracts with respect to that SCM's ~~SwapClear~~-Clearing Clients or FCM Clients. The provisions of this sub-paragraph (f) shall not apply

to New Members and, for the avoidance of doubt, New Members shall not constitute Non-Defaulting SCMs for the purposes of limb (ii) of this subparagraph;

- (g) the “**SwapClear Contribution**” of: (x) an SCM (other than an SCM that is a New Member) shall be the sum of (i) that SCM’s SwapClear Non-Tolerance Contribution Amount adjusted, where applicable, in accordance with paragraph (h) or (m) below, and (ii) that SCM’s Tolerance Contribution Amount; and (y) an SCM that is a New Member shall be calculated in accordance with S3;
- (h) if an SCM's SwapClear Non-Tolerance Contribution Amount (calculated in accordance with paragraph (e) above) is below the Minimum Non-Tolerance SwapClear Contribution for the time being, the SCM's SwapClear Non-Tolerance Contribution Amount shall be adjusted so as to equal the Minimum Non-Tolerance SwapClear Contribution; **provided that** where, as a result of the adjustments in individual SCM SwapClear Non-Tolerance Contribution Amounts as described in this paragraph, the aggregate of the SwapClear Non-Tolerance Contribution Amounts is greater than the SwapClear Non-Tolerance Amount, the Clearing House will adjust individual SwapClear Non-Tolerance Contribution Amounts such that the aggregate of the SwapClear Non-Tolerance Contributions equals the SwapClear Non-Tolerance Amount;
- (i) the "**SwapClear Actual Total**" shall be calculated by adding together (i) the amount which is the product of the Minimum Non-Tolerance SwapClear Contribution (as defined in the General Regulations) and the number of Minimum SwapClear Contribution Members; and (ii) the aggregate SwapClear Non-Tolerance Contribution Amounts (calculated in accordance with paragraph (e) above) of those SCMs which are not Minimum SwapClear Contribution Members; (iii) the aggregate SwapClear Tolerance Contribution Amounts of all SCMs other than SCMs which are New Members; and (iv) the aggregate SwapClear Contributions of all SCMs which are New Members;
- (j) where the SwapClear Actual Total is greater than the Rates Service Fund Amount - SwapClear, the "**SwapClear Excess**" shall be the arithmetical difference between the SwapClear Actual Total and the Rates Service Fund Amount - SwapClear;
- (k) [reserved];
- (l) for each SCM other than a Minimum SwapClear Contribution Member or a New Member, the SCM's "**SwapClear Discount**" (if any) shall be such SCM's *pro rata* share of the SwapClear Excess calculated as the proportion of such SCM's SwapClear Non-Tolerance Contribution Amount relative to the aggregate SwapClear Non-Tolerance Contribution Amounts of all SCMs other than Minimum SwapClear Contribution Members and New Members;
- (m) for each SCM other than a Minimum SwapClear Contribution Member or a New Member, the SCM's SwapClear Non-Tolerance Contribution Amount shall be adjusted by the subtraction of any SwapClear Discount applicable to the SCM; **provided that** if the application of any SwapClear Discount would result in a SwapClear Non-Tolerance Contribution Amount of an SCM that is

less than the Minimum Non-Tolerance SwapClear Contribution, such SCM shall pay the Minimum Non-Tolerance SwapClear Contribution in respect of the SwapClear Non-Tolerance Contribution Amount applicable to it, notwithstanding that the arithmetical sum of SwapClear Contributions paid by all SCMs may thereby exceed the Rates Service Fund Amount - SwapClear; and

- (n) the Clearing House may recalculate the SwapClear Contributions due from each SCM on any business day if the largest of the 60 Combined Loss Values determined under Rule CS1 on that day differs by more than 25 per cent. from the Combined Loss Value on which the previous SwapClear Contribution determination was based and, on such business day, the Clearing House shall be entitled to require those SCMs whose portfolios have caused the increase in the Combined Loss Value to pay an additional amount in respect of their SwapClear Contributions.

S2. For the purposes of the calculations under Rule CS1:

- (a) references to "SwapClear Clearing Members" or to "SCMs" do not include references to Defaulting SCMs (apart from any Defaulting SCM in respect of which the Clearing House permits the application of Rule CS1) or persons which were formerly SCMs but are not SCMs at the SwapClear Determination Date at which the relevant determination is made;
- (b) contributions shall be rounded upwards, if not already such a multiple, to the next integral multiple of one thousand pounds, notwithstanding that the arithmetical sum of SwapClear Contributions paid by all SCMs may thereby exceed the SwapClear Fund Cap;
- (c) no account shall be taken, in calculating initial margin or SwapClear Non-Tolerance Weight under Rule S1 of this part A of any offsets applied in calculating initial margin obligations imposed on an SCM in respect of SwapClear Contracts, which may otherwise be permissible under the Procedures or other arrangements applicable;
- (d) provided that the SCM is not a Defaulter, the amount of its SwapClear Contribution shall be calculated in accordance with and subject to Rule S1 of this Part A. The provisions of Rule S1 of this Part A and this Rule do not apply to a Defaulting SCM, unless the Clearing House so permits in any particular case; and
- (e) if (i) an SCM (other than an FCM Clearing Member) notifies the Clearing House on the Rates Service Default Management Process Completion Date or the business day occurring immediately after such date that it wishes to resign from the SwapClear Service, (ii) the SwapClear AET Requirement in respect of such proposed resignation has been satisfied by the SwapClear Determination Date occurring immediately after such Rates Service Default Management Process Completion Date, (iii) the SCM is not a Defaulter, and (iv) no Default has occurred from and including the SwapClear Determination Date referred to in Rule S2(e)(ii) to and including the fourth business day occurring after such SwapClear Determination Date ("**SwapClear Contribution Payment Date**"),

then the SCM shall cease to be an SCM on and from such SwapClear Contribution Payment Date and the Clearing House shall repay the SwapClear Contribution that it holds for such SCM (to the extent it has not been applied under these Default Rules) in accordance with the Procedures and the SCM shall not be obliged to make any payment to the Clearing House under Rule S4(c). If an SCM notifies the Clearing House in accordance with Rule S2(e)(i), but the requirements under Rules S2(e)(ii), (iii) and/or (iv) are not satisfied, then such SCM will cease to be a Resigning Member in respect of the SwapClear Service.

- S3. Without prejudice to any other requirements which the Clearing House may impose, the amount of the SwapClear Contribution of a New Member shall be the sum of (a) the Minimum Non-Tolerance SwapClear Contribution; (b) the SwapClear Tolerance Contribution Amount; and (c) any supplementary sum determined by the Clearing House in its discretion and notified to the New Member. The Clearing House shall determine the amount of such supplementary sum by reference to the actual or expected level of clearing activity of the New Member.
- S4. Upon determination of the amount of a SwapClear Contribution in accordance with Rule S1 of this Part A:
- (a) if the amount of the SwapClear Contribution of an SCM immediately before the time at which the Clearing House determines the SCM's SwapClear Contribution under Rule S1 on the relevant SwapClear Determination Date exceeds the amount of the SCM's SwapClear Contribution as so determined, the excess shall be paid by the Clearing House to such SCM in accordance with the Procedures;
 - (b) if the amount of the SwapClear Contribution of an SCM immediately before the time at which the Clearing House determines the SCM's SwapClear Contribution under Rule S1 on the relevant SwapClear Determination Date is the same as the amount of the SCM's SwapClear Contribution as so determined, no sum shall then be payable by or to such SCM in respect of its Contribution; and
 - (c) if the amount of the SwapClear Contribution of an SCM immediately before the time at which the Clearing House determines the SCM's SwapClear Contribution under Rule S1 on the relevant SwapClear Determination Date is less than the amount of the SCM's SwapClear Contribution as so determined, the shortfall shall be paid by such SCM to the Clearing House in accordance with the Procedures.

The provisions of this Rule do not apply to a Defaulting SCM, unless the Clearing House so permits in any particular case.

- S5. On any day interest shall accrue on the amount of each SwapClear Contribution held by the Clearing House, to the extent that it has not been applied under Rules 19 or 21 of the Default Rules, in such manner as provided by the Procedures and at a SONIA-linked rate determined, in light of market conditions at such time, by the Clearing House from time to time and notified by the Clearing House to SwapClear Clearing Members. Interest shall be payable in arrear and shall be paid on the date or dates specified by the Procedures. In these Default Rules any interest which has accrued under this Rule shall

not be regarded as part of the SwapClear Contribution. For the avoidance of doubt, if the rate of interest payable on SwapClear Contributions is negative, interest shall be payable by SwapClear Clearing Members to the Clearing House.

S6.

- (a) After a Default, unless and until the Clearing House has repaid a Defaulter's SwapClear Contribution (or the remaining part thereof, as applicable), the Rates Service Fund Amount - SwapClear shall be treated as having been reduced by the amount of the Defaulter's SwapClear Contribution (if any), regardless of whether the Clearing House has applied part or all of that SwapClear Contribution under the Default Rules.
- (b) Where, after a Default, the Clearing House has applied part or all of the SwapClear Contributions of the Non-Defaulting SCMs under Rule 21 of the Default Rules, the Rates Service Fund Amount - SwapClear shall be reduced forthwith by the deduction of (i) the amount of the Defaulter's SwapClear Contribution (if any) in accordance with paragraph (a) of this Rule S6; and (ii) the aggregate amount of the SwapClear Contributions or parts of SwapClear Contributions of the Non-Defaulting SCMs so applied, and the amount of the SwapClear Contribution that each Non-Defaulting SCM must maintain with the Clearing House shall be reduced by the amount of its SwapClear Contribution which has been so applied, in each case, until the next SwapClear Determination Date and subject to (where applicable) the requirement under Rule S7 and Rule CS7.
- (c) [reserved].

S7. Where, after a Default, the Clearing House determines that (i) by reason of a reduction in accordance with Rule S6, the value of the Rates Service Fund Amount - SwapClear has been reduced by at least 25 per cent.; or (ii) by the time of the Rates Service Default Management Process Completion Date in relation to the relevant Default the value of the Rates Service Fund Amount - SwapClear will be reduced by at least 25 per cent., the Clearing House may, by notice in writing (the "**SwapClear Unfunded Contribution Notice**"), require each Non-Defaulting SCM to deposit and maintain an amount (each a "**SwapClear Unfunded Contribution**") in accordance with the following provisions:

- (a) SwapClear Unfunded Contributions will only be payable in circumstances where the relevant SwapClear Unfunded Contribution Notice is delivered by the Clearing House to SCMs prior to the Rates Service Default Management Process Completion Date in relation to the relevant Default;
- (b) the value of the SwapClear Unfunded Contribution payable by each individual SCM shall be the product of (i) the percentage by which the value of the Rates Service Fund Amount - SwapClear has been reduced and (ii) the value of the SwapClear Contribution of such SCM as at the last SwapClear Determination Date prior to the date when the relevant Default occurred;
- (c) the Clearing House may, by the delivery of one or more further SwapClear Unfunded Contribution Notices, require each Non-Defaulting SCM to pay one

or more further SwapClear Unfunded Contributions in respect of the same Default, **provided that** the total value of the SwapClear Unfunded Contributions payable by an individual SCM in respect of a particular Default (determined in accordance with paragraph (b) above) may not exceed the value of the SwapClear Contribution of such SCM as at the last SwapClear Determination Date prior to the date when the relevant Default occurred; and

- (d) following a Default in respect of which SwapClear Unfunded Contributions were paid (the "**First Default**"), the Clearing House may require the payment of further SwapClear Unfunded Contributions in respect of subsequent Defaults, (which, for the avoidance of doubt, can never be a First Default), **provided that** SwapClear Unfunded Contributions will not be payable in respect of any more than three Defaults in any six month period (commencing on the date of delivery of the first SwapClear Unfunded Contribution Notice in respect of the First Default).

SCMs will be required to deposit the full amount of their SwapClear Unfunded Contributions (without exercising any rights of set-off or counterclaim) with the Clearing House on the business day following the receipt of a SwapClear Unfunded Contribution Notice.

For the avoidance of doubt, references to "SCMs" for the purposes of this Rule include any SCM (other than a Defaulting SCM) who is: (i) a Retiring Member but whose status as a Clearing Member has not yet been terminated; and (ii) a Resigning Member whose resignation from the SwapClear Service is not yet effective.

PART B

RATES SERVICE DEFAULT FUND SUPPLEMENT – LISTED INTEREST RATES

L1. In this Part B to the Rates Service Default Fund Supplement, subject to any contrary indication or where the context otherwise requires, references to:

~~the "Business" means the Listed Interest Rates Business of a Member~~

~~a "Contract" means a Listed Interest Rates Contract, a contract cleared pursuant to a Service and such other listed interest rate derivative contract as the Clearing House may from time to time specify by notice to the Members~~

~~a "Contribution" means a Listed Interest Rates Contribution~~

~~the "Default Fund Excess" means the amount by which the Total Fund amount exceeds the greater of the Weighted Rates Service Fund Amount or the Default Fund Floor~~

~~the "Default Fund Floor" means the sum of equals the greater of (i) GBP 10,000,000 and (ii) the Minimum Contributions Contribution multiplied by the number of Members~~

~~a "Determination Date" means a Listed Interest Rates Determination Date~~

"Excess" means the amount (if any) by which the aggregate Notional Contributions exceeds the Rates Service Fund Amount – Listed Interest Rates

"Excess Deduction" means, in respect of a Weighted Member and an Excess, the amount equal to such Excess multiplied by the Excess Ratio for such Weighted Member

"Excess Ratio" means, in respect of a Weighted Member, such Weighted Member's Notional Contribution divided by the aggregate Notional Contributions of all Weighted Members

~~the "Excess Loss" means the Listed Interest Rates Excess Loss~~

~~the "Listed Interest Rates AET Requirement" means, in respect of a Member, that all of the Contracts (other than Portfolio Margined Contracts) in the name of such Member have been closed out or transferred to another Clearing Member~~

"Member" means a Listed Interest Rates Clearing Member and a Clearing Member approved to clear a Specified Market

~~a "Minimum Contribution" means either (i) GBP 500,000 for a Listed Rates Clearing Member that is not a Joint Rates Service Clearing Member; or (ii) GBP 7,500,000 for a Joint Rates Service Clearing Member~~2,000,000

~~a "Non-Defaulting Clearing Member" means a Member that is not a Defaulter under Rule 4 of the Default Rules~~

"Notional Contribution" means the amount calculated pursuant to Rule L2(b) and (c)

"Service" means the listed interest rate derivatives and listed interest rate derivatives-related services provided by the Clearing House pursuant to its rules governing the clearing of the Specified Markets and includes the Listed Interest Rates Service

~~"Specified Markets" means the Rates Exchanges and any other markets from time to time specified by the Clearing House~~

Shortfall means the amount (if any) by which the Rates Service ~~"Total Fund Amount"~~ ~~means the sum of all Members'~~ Listed Interest Rates exceeds the aggregate Notional Contributions

~~"Weighted Contributions Amount" means the sum of all Weighted Contributions~~

~~"Weighted Contribution Reallocation Percentage" means for each Weighted Contribution Member, the proportion of such Member's Weighted Contribution to the Weighed Contributions Amount~~

Shortfall Contribution means, in respect of a Member and a Shortfall, the amount equal to such Shortfall multiplied by the Shortfall Ratio for such Member

Shortfall Ratio means, in respect of a Member, such Member's Notional Contribution divided by the aggregate Notional Contributions

Specified Market means any Rates Exchange and any other market from time to time specified by the Clearing House

~~a "Weighted Member" means a Member that is required to pay a Weighted~~ for which its Notional Contribution pursuant to Rule L2 (e) below is not the Minimum Contribution

and calculations of "End of Day Margin Weight", "Peak Intra-Day Margin Weight" and "Weight Factor" are carried out in accordance with this Part B of the Rates Service Default Supplement only.

Capitalised terms not otherwise defined in this Part B of the Rates Service Default Fund Supplement shall have the meanings assigned to them in the General Regulations or the Default Rules, as applicable.

L2. **Listed Interest Rates Contributions to the Rates Service Fund**

- (a) The amount of each Member's Contribution shall be determined by the Clearing House on the first business day of each month and at the time on such day determined by the Clearing House, and otherwise in accordance with paragraph (d) below (each, a "Listed Interest Rates Determination Date") on the basis of information available on the immediately preceding business day and notified to such Member as soon as practicable after such determination in accordance with the Procedures. ~~However, determinations of Contributions under the methodology of this Rule are~~ In addition, the amount payable in respect of the Contribution of a Member that is a New Member will be determined as at the date that it joins the Service. Notwithstanding the foregoing, following a Default, any determinations on a Listed Interest Rates Determination Date and any such Listed Interest Rates Determination Date which might otherwise have occurred

under this Rule L2(a) shall be suspended for the duration of the period (the "**Listed Interest Rates Default Period**") commencing on the date of such Default and terminating on the later to occur of the following times:

- (i) the time, as determined by the Clearing House, on the day falling 30 calendar days after the Rates Service Default Management Process Completion Date in relation to such Default (or, if such day is not a business day, the next succeeding business day); and
 - (ii) where, prior to the end of the period referred to in sub-paragraph (i) above (or such period as has already been extended pursuant to this sub-paragraph (ii)) one or more subsequent Defaults (each a "**Relevant Default**") occur, the time, as determined by the Clearing House, on the day falling 30 calendar days after the Rates Service Default Management Process Completion Date in relation to a Relevant Default which falls latest in time (or, if such day is not a business day, the next succeeding business day).
- (b) A Member's Notional Contribution shall be determined with reference to business conducted by it on the Specified Markets in Contracts as follows:
- (i) the Member's "**End of Day Margin Weight**" shall be calculated by dividing the average daily initial margin obligation at the end of each day (as calculated under the Procedures or other arrangements applicable) which has applied to the Member during the Reference Period in respect of all Contracts by the total of such average daily obligations applied to all Members other than Defaulters;
 - (ii) the Member's "**Peak Intra-Day Margin Weight**" shall be calculated by dividing the average maximum intra-day initial margin obligation arising at any point during each day during the Reference Period (as calculated under the Procedures or other arrangements applicable) which has applied to the Member in respect of all Contracts by the total of such average maximum intra-day obligations applied to all Members other than Defaulters;
 - (iii) the Member's "**Weight Factor**" shall be calculated by adding one-half of its End of Day Margin Weight to one-half of its Peak Intra-Day Margin Weight,
- (c) ~~The~~A Member's Notional Contribution shall be the greater of the:
- (i) ~~the amount arrived at by multiplying the~~ Weighted Rates Service Fund Amount multiplied by the Member's Weight Factor ~~(the "**Weighted Contribution**")~~; and
 - (ii) Minimum Contribution.
- (d) A Member's Contribution shall be as follows. If:
- (i) no Shortfall or Excess exists, then the Member's Contribution shall equal its Notional Contribution;

- (ii) a Shortfall exists, then the Member's ~~Minimum~~ Contribution, shall equal its Notional Contribution plus its Shortfall Contribution; or
- (iii) ~~provided that, if a Default Fund Excess would arise pursuant to the foregoing~~ Excess exists, then the ~~Clearing House shall recalculate each Weighted Member's Contributions by reducing each Weighted Member's Contribution by an amount equal to each Weighted Member's Weighted Contribution Reallocation Percentage multiplied by the Default Fund Excess, provided further that, if pursuant to the foregoing~~ shall equal its Notional Contribution less its Excess Deduction (if any), except that if this would result in any Weighted Member's Contribution would be being less than theirthe Minimum Contribution, then;
- (A) such Weighted Member's Contribution shall be ~~increased to the~~ Minimum Contribution. ~~Where such increase gives rise to a Default Fund Excess, then the Clearing House shall iteratively carry out the process described in this paragraph, with the each Weighted Contribution and the Total Fund Amount revised accordingly until the Total Fund Amount is equal to either the Default Fund Floor or the Weighted Rates Service Fund Amount (as applicable), at which point it will cease to be a Weighted Member; and~~
- (B) if, after treating each Member's Contribution calculated pursuant to Rule L2(d)(iii) above as its Notional Contribution, an Excess still exists, the Clearing House shall apply Rule L2(d)(iii) again (where each Member's Contribution calculated pursuant to Rule L2(d)(iii) above will be treated as its Notional Contribution for the purpose of such re-application) to reduce the Contribution of each remaining Weighted Member and shall (if necessary) repeat such process until there is no Excess, where the final calculated Contributions shall be the Members' Contributions.
- (e) For the purposes of ~~these~~ the calculations under Rule L2:
- (i) **"Reference Period"** means the period of three calendar months immediately before the Determination Date;
- (ii) references to **"Members"** do not include references to Defaulters (apart from any Defaulter in respect of which the Clearing House permits the application of this Rule) or persons which were formerly Members but are not Members on the date on which the relevant calculation is made;
- (iii) Contributions shall be rounded upwards, if not already such a multiple, to the next integral multiple of one thousand pounds; ~~and~~
- (iv) no account shall be taken, in calculating initial margin or Margin Weight under ~~this paragraph~~ Rule L2(b) of any offsets applied in calculating the initial margin obligations imposed on Members in respect of Contracts,

which may otherwise be permissible under the Procedures or other arrangements applicable; and

(v) the Contribution of a New Member is calculated pursuant to Rule L2(f), not Rule L2(b) to (d), and references to "Members" for the purposes of Rule L2(b) to (d) and the definitions used within such paragraphs do not include a New Member.

(f) ~~(e)~~ Without prejudice to any other requirements which the Clearing House may impose, the amount of the Contribution of a New Member shall be the sum of:

- (i) the Minimum Contribution; and
- (ii) any supplementary sum determined by the Clearing House in its discretion and notified to the New Member. The Clearing House shall determine the amount of such supplementary sum by reference to the actual or expected level of clearing activity of the New Member.

(g) ~~(d)~~ Except to the extent that the cap specified in paragraph (c) of Rule L5 would be exceeded, the Clearing House may recalculate the Contributions due from certain Members on any business day other than one falling between the date of a Default and the later of the two dates set out in paragraph (a) of this Rule L2, in the following circumstances:

- (i) if the Combined Loss Value determined under paragraph (b) of Rule CS1 on that day deviates by more than 25 per cent. upwards or downwards from the Combined Loss Value on which the previous Contribution determination was based, on such business day, the Clearing House shall be entitled to make an adjustment upwards or downwards to the Rates Service Fund Amount - Listed Interest Rates commensurate with the deviation;
- (ii) where the Risk Committee considers (for any reason) that a recalculation is warranted between Determination Dates.

L3. Interest on Listed Interest Rates Contributions

On each day interest shall accrue on the amount of each Contribution held by the Clearing House, to the extent that it has not been applied under Rule 26 or Rule 28 of the Default Rules, at such rate and in such manner as provided by the Procedures, provided that the rate of interest for any particular day shall be based on a market-recognised benchmark rate plus or minus a spread. Such rate and such spread shall be determined, in light of market conditions at such time, by the Clearing House from time to time and notified by the Clearing House to Members. Interest on Contributions shall be payable in arrears and shall be paid on the date or dates specified by the Procedures. Any interest which has accrued under this Rule shall not be regarded as part of a Contribution.

L4. Payment of Listed Interest Rates Contributions

(a) Upon determination of the amount of a Contribution on a Determination Date: